



# THE UNIVERSITY *of* EDINBURGH

This thesis has been submitted in fulfilment of the requirements for a postgraduate degree (e.g. PhD, MPhil, DClinPsychol) at the University of Edinburgh. Please note the following terms and conditions of use:

This work is protected by copyright and other intellectual property rights, which are retained by the thesis author, unless otherwise stated.

A copy can be downloaded for personal non-commercial research or study, without prior permission or charge.

This thesis cannot be reproduced or quoted extensively from without first obtaining permission in writing from the author.

The content must not be changed in any way or sold commercially in any format or medium without the formal permission of the author.

When referring to this work, full bibliographic details including the author, title, awarding institution and date of the thesis must be given.

**GLOBAL NORMS AND THE NATION-STATE:  
THE “MODERNISATION” OF AUDIT REGULATIONS  
IN KUWAIT**

Mohammad Alahmed



THE UNIVERSITY  
*of* EDINBURGH

Doctor of Philosophy  
The University of Edinburgh  
2020



## DECLARATION

I declare that this thesis has been composed solely by myself and that it has not been submitted, in whole or in part, in any previous application for a degree. Except where states otherwise by reference or acknowledgment, the work presented is entirely my own.

Signed: .....



## ABSTRACT

Neoliberal globalisation is spread through a complex web of polycentric and interdependent powers. These powers advance Western norms and practices, even into non-Western societies with very different cultural traditions. We know little about the processes and application of global norms at the nation-state level, especially norms described as “international best practices”. There is an emerging interest among accounting scholars who have begun to consider the struggles surrounding attempts, at the national level, to standardise their audit oversight systems with those of the US. Prior research has primarily focused on Western states. This thesis aims to complement the emerging debate by considering how and why Kuwait implemented “internationally best” audit regulatory practices. Kuwait provides a new institutional setting for accounting research. The thesis contains interviews with key actors involved in the process of regulatory change in Kuwait, including senior executives in audit firms, the Kuwaiti accountancy body, and different state financial regulators. The theoretical framework is drawn from Pierre Bourdieu’s theory of practice (including his theory of the state) and Terence Halliday and Bruce Carruthers’ theory of recursivity. The thesis finds that the Kuwaiti attempt to modernise audit regulations created a conflict between the newly created regulator and the audit profession, similar to findings in prior accounting research. Uniquely, the thesis finds that the changes produced inter-governmental struggles since Kuwait follows a legalist system of governance as opposed to a corporatist one. Each field employed different strategies to maintain or transform the extant (status quo) order of regulatory arrangements, audit field dynamics, and the hierarchical structures of society. The thesis further examined attempts to institutionalise “international best practice” audit independence technologies: audit rotation and the prohibition of non-audit services. In light of this, the thesis found that local influential auditors drove regulatory manipulation and misconceptions. This thesis concludes that, in the audit regulatory domain, the embedded Western logic of global norms creates a sea of conflicts and confrontations with the indigenous practices and culture of the nation-state.



## LAY SUMMARY

Nation-states are under various forms of (direct and indirect) pressure to adopt the financial regulations of the regulatory systems of powerful countries. These powerful countries describe their own systems as “international best practice” as part of their strategy to encourage changes to the practices and traditions of less powerful countries. Although we hear about “international best practices” in many aspects of social life, this thesis focuses on the auditing regulatory domain. In particular, it is concerned with Kuwait. Kuwait is a country that has a different social system and a different way of regulating auditors’ practices than powerful Western countries.

Following the recent global financial crisis, Kuwait reformed its capital market according to Western-driven “international best practices”; it created a new government agency for this task. This thesis aims to explain why and how Kuwait modernised its audit regulatory practices. To do so, the researcher carried out interviews with key local people involved in the changes to the Kuwaiti audit regulations to bring them into line with Western “best-practice”.

The thesis draws on the theoretical perspectives of French philosopher Pierre Bourdieu and American sociologists Terence Halliday and Bruce Carruthers. The thesis found that there were significant conflicts between different local social groups. Conflict over the changes to audit (regulatory) practices was not limited to disputes between the new regulatory agency and established auditors, as was found in prior studies. In Kuwait, conflict spread throughout various government agencies and powerful social groups outside the field of audit regulation.

The Kuwaiti public believed that the adoption of “international best practices” would help to overcome some problems inside the government and the broader nation-state. Indeed, some of the changes required by the adoption of “international best practices” challenged the way some influential local groups maintain their power and their social status. Accordingly, some powerful Kuwaiti groups opposed changes to the regulatory framework as well as some of the new rules on auditing.



This thesis analyses and explains the different strategies of collaboration and confrontation employed to maintain or transform the “pecking order” of audit firms, state financial regulators, and other powerful local Kuwaiti groups.

## **ACKNOWLEDGEMENTS**

I want to thank my sponsor, the Public Authority for Applied Education and Training in Kuwait, for funding my PhD study. Also, I would like to thank the University of Edinburgh Business School and the accounting and finance department for providing a great learning environment.

Throughout my five-year journey, I met great people at the University of Edinburgh, in conferences, workshops, seminars, and reading groups. I benefited a lot from feedback on this thesis - thank you all. I also thank my interviewees for their time and honesty, and my external and internal examiners for agreeing to spend their time and effort examining my thesis.

To my supervisors, without your guidance, this thesis might never have been completed in the way it is. To Professor David Cooper, thank you for your continuous advice and encouragement. To Professor Christine Cooper, thank you for your patience, guidance, challenges, and support. No one could ever wish for a better mentor. Thank you for everything.

To my friends in the PhD journey, Mohammad Alasfour, Khaled Albader, Jonathan Tweedie, thank you for your support, advice, and continuous intellectual challenges.

To my father, mother, sisters, brothers, and my friends in Kuwait: thank you all for your support and encouragement during my PhD study far from Kuwait.

Last but not least, to my wife Wadha thank you for your care and support throughout this journey. To my kids, Hessa and Abdulrahman, having you around all the time made this journey more challenging, but also more joyfully enjoyable! I am sure we will never forget our five years in Scotland.



# TABLE OF CONTENTS

DECLARATION .....	iii
ABSTRACT .....	v
LAY SUMMARY .....	vii
ACKNOWLEDGEMENTS.....	ix
TABLE OF CONTENT .....	xi
LIST OF TABLES .....	xvii
LIST OF FIGURES .....	xvii
LIST OF ABBREVIATIONS.....	xix
<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1. <i>Motivation and objectives</i> .....	8
1.2. <i>Methodology and methods</i> .....	10
1.3. <i>Findings overview</i> .....	11
1.4. <i>Contribution</i> .....	14
1.5. <i>Organisation of the thesis</i> .....	15
<b>2. GLOBAL NORMS AND THE STATE-AUDIT PROFESSION</b>	
<b>LITERATURE .....</b>	<b>19</b>
2.1. <i>Introduction</i> .....	19
2.2. <i>North-Western theorisation of the state-profession relationship</i> .....	20
2.2.1. Regional influences on national state-profession corporatist arrangements .....	24
2.2.2. Globalisation and audit in North-Western states .....	26
2.2.3. Strategies of international audit firms at the level of transnational agencies.....	28
2.3. <i>The relationship between “non-advanced Western” states and the             audit profession</i> .....	30
2.3.1. Globalisation and audit in the non-north-Western context .....	35
2.4. <i>Sociology literature on the audit profession</i> .....	38
2.4.1. Locating power in the site of audit firms .....	39
2.5. <i>The globalisation of US audit arrangements</i> .....	43
2.5.1. Critiques of SOX-driven audit technologies.....	45
2.5.2. The internationalisation of SOX-inspired changes to nation- state corporatist arrangements.....	47
2.6. <i>International best practices: The unobserved global norm</i> .....	53

2.6.1.	International best practice in the public administration literature .....	55
2.6.2.	The spirit of global norms in sociological studies .....	57
2.7.	<i>Chapter conclusion</i> .....	60
<b>3.</b>	<b>THE CONTEXT OF KUWAIT .....</b>	<b>65</b>
3.1.	<i>Introduction</i> .....	65
3.2.	<i>Geographic and demographic background of contemporary Kuwait</i> . .....	66
3.3.	<i>Social classification of Kuwait society</i> .....	68
3.4.	<i>The distinctiveness of the Kuwaiti social system</i> .....	70
3.5.	<i>The history of Kuwait</i> .....	72
3.5.1.	The birth of capital practices in Kuwait.....	75
3.5.2.	Kuwait: independence and constitution.....	77
3.6.	<i>Kuwait's political system</i> .....	78
3.6.1.	Kuwait's parliamentary arrangements .....	79
3.6.2.	The government structure .....	81
3.7.	<i>Economic system of Kuwait</i> .....	84
3.7.1.	Merchants and the economy .....	87
3.7.2.	Kuwait's capital market .....	88
3.7.2.1.	Souk Almanakh and the first stock market reform .....	89
3.7.2.2.	The 1990 invasion of Kuwait .....	91
3.7.2.3.	The Iraq invasion of 2003 and the global financial crisis of 2008.....	91
3.8.	<i>Chapter conclusion</i> .....	94
<b>4.</b>	<b>THEORETICAL FRAMEWORK.....</b>	<b>99</b>
4.1.	<i>Introduction</i> .....	99
4.2.	<i>Bourdieu's theory of practice</i> .....	100
4.2.1.	Introduction .....	100
4.2.2.	The praxeology of Pierre Bourdieu .....	101
4.2.3.	Bourdieu's theorisation of praxis .....	103
4.2.3.1.	Field.....	103
4.2.3.2.	Capitals.....	104
4.2.3.3.	The field of power .....	108
4.2.3.4.	Habitus .....	110
4.2.3.5.	Concepts of taken-for-granted .....	111
4.2.4.	Concluding Bourdieusian practice.....	112

4.3.	<i>Bourdieu and the state</i> .....	113
4.3.1.	Introduction.....	113
4.3.2.	The genesis of the bureaucratic-state .....	114
4.3.3.	The process of concentrating different (interdependent) species of capital in the state.....	115
4.3.3.1.	State physical power.....	116
4.3.3.2.	State economic capital.....	117
4.3.3.3.	Informational capital.....	117
4.3.3.4.	Autonomous juridical capital.....	118
4.3.3.5.	Symbolic power of the state.....	118
4.3.3.6.	Concluding the state concentration of power.....	120
4.3.4.	Dynamic of the bureaucratic field and its relation to the field of power.....	121
4.3.4.1.	The bureaucratic struggle to maintain or transform order..	122
4.3.5.	Concluding comments on Bourdieu state power and his late writings .....	125
4.4.	<i>The theory of recursivity</i> .....	127
4.4.1.	The theory of legal change and the accounting literature .....	128
4.4.2.	What is the theory of legal change, “recursivity”?.....	129
4.4.2.1.	Global norm-making and power.....	132
4.4.2.2.	Conflict in national lawmaking.....	138
4.4.2.3.	Foiling global hegemony and the generation of recursivity	144
4.4.3.	Concluding transnational recursivity.....	149
4.5.	<i>Chapter conclusion</i> .....	151
<b>5.</b>	<b>RESEARCH METHODOLOGY AND METHOD</b> .....	<b>155</b>
5.1.	<i>Introduction</i> .....	155
5.2.	<i>Philosophy of social theory research</i> .....	155
5.2.1.	Dimensions to the nature of social science .....	156
5.2.2.	Assumptions about the nature of society.....	159
5.2.3.	The formation of Burrell and Morgan’s four philosophical paradigms.....	160
5.2.4.	Critique of the Burrell and Morgan philosophical paradigms.	161
5.3.	<i>My philosophical stance</i> .....	162
5.3.1.	World view assumptions (social science and society).....	162
5.3.1.1.	Axiological position .....	163
5.3.1.2.	Value of research.....	164



<b>7. CONFLICTS ON MODERNISATION OF AUDIT REGULATIONS IN KUWAIT.....</b>	<b>223</b>
7.1. <i>Introduction .....</i>	223
7.2. <i>Part 1: Bureaucratic struggle over how to maintain regulatory order .</i>	224
7.2.1. Strategies to reproduce inter-bureaucratic domination for audit regulations .....	227
7.2.1.1. Strategy 1: Registration: A bureaucratic technology to expand regulatory territories .....	228
7.2.1.2. Strategy 2: Recruitment tactics .....	231
7.2.1.3. Strategy 3: Bureaucratic superiority practices .....	233
7.2.1.4. Strategy 4: Fighting one of the most symbolic social groups, the merchants .....	235
7.2.1.5. Strategy 5: the appointment of autocratic leadership .....	237
7.3. <i>Part 2: Conflict between the new (bureaucratic) regulator and the audit field .....</i>	239
7.3.1. Audit field rationalities behind resistance to reforming audit regulations .....	239
7.3.2. Strategies by the audit field to resist modernisation rules .....	246
7.4. <i>Chapter conclusion .....</i>	249
<b>8. OUTCOME OF RESISTANCE: SATISFYING INFLUENTIAL LOCALS ..</b>	<b>253</b>
8.1. <i>Introduction .....</i>	253
8.2. <i>Balancing interests between the new regulator and influential actors</i>	254
8.3. <i>Maintaining the status quo type of rotation .....</i>	256
8.4. <i>The silence of auditors on complete prohibition of advisory services.</i>	264
8.4.1. Shaping the rationality of regulators on the logic of advisory services .....	265
8.5. <i>Chapter conclusion .....</i>	272
<b>9. DISCUSSION CHAPTER .....</b>	<b>275</b>
9.1. <i>Introduction .....</i>	275
9.2. <i>The state's hierarchal battle to transform its regulatory vision.....</i>	276
9.3. <i>Collective lobby to advance the private interest of the few.....</i>	282
9.4. <i>Manipulation of international regulations to maintain order .....</i>	284
9.4.1. Customised rotation: A solution to maintain broader order ...	284



9.4.2. Prohibiting non-audit services: An exploitation that became a regulatory norm .....	288
9.5. <i>Legitimising Kuwait in the “new” global order</i> .....	290
9.5.1. Why submit to Western logics? .....	291
9.5.1.1. Rationalising Western practice supremacy .....	291
9.5.1.2. Regional competition .....	292
9.5.1.3. National security as a reason .....	293
9.5.2. Why late reform? .....	294
9.6. <i>Chapter conclusion</i> .....	295
<b>10. THESIS CONCLUSION</b> .....	<b>299</b>
10.1. <i>Introduction</i> .....	299
10.2. <i>Contributions to existing knowledge</i> .....	300
10.2.1. Contribution 1: Confrontation between Western-driven internationalisation of structural logics with non-Western and non-corporatist traditions.....	301
10.2.2. Contribution 2: The myth of the implementation of international best practice micro audit technologies .....	301
10.2.3. Contribution 3: The Kuwaiti example of the relationship between the “state” and the audit profession in the non-Western literature .....	302
10.3. <i>Practical implications</i> .....	303
10.4. <i>Limitations</i> .....	305
10.5. <i>Recommendations for future research</i> .....	307
10.6. <i>Concluding remarks</i> .....	310
<b>References</b> .....	<b>313</b>
<b>Appendices</b> .....	<b>329</b>
<i>Appendix 1: Preliminary interview queries</i> .....	329
<i>Appendix 2: Interview protocol</i> .....	331
<i>Appendix 3: Provisions of audit laws prior to 1981</i> .....	337
<i>Appendix 4: English version of Kuwait Audit Law of 1981</i> .....	339
<i>Appendix 5: Analytical Map of the findings</i> .....	347
<i>Appendix 6: Selection of salient CMA audit regulation requirements</i> .....	351

## LIST OF TABLES

TABLE 1: SOME DEMOGRAPHIC INFORMATION ON KUWAIT (1) .....	67
TABLE 2: SOME DEMOGRAPHIC INFORMATION ON KUWAIT (2) .....	67
TABLE 3: RESPONSIBILITIES OF EACH MINISTER WITHIN THE GOVERNMENT .....	83
TABLE 4: KUWAIT FISCAL CLOSING ACCOUNTS IN THE LAST FIVE FINANCIAL YEARS	85
TABLE 5: PRELIMINARY INTERVIEWS.....	169
TABLE 6: DETAILS OF THE MAIN INTERVIEWS .....	175
TABLE 7: INTERVIEWS WITH STATE FINANCIAL REGULATORS .....	176
TABLE 8: SUMMARY OF PARTICIPANTS' ROLES IN REGULATING AUDITORS PRACTICES BEFORE CHANGE .....	189
TABLE 9: THE MINISTRY OF COMMERCE COMMITTEES STRUCTURE FOR REGULATING AUDITOR PRACTICES .....	195
TABLE 10: ROSC REPORTS ON THE KUWAITI FINANCIAL SYSTEM .....	204
TABLE 11: LICENCED AUDITORS REGISTERED WITH THE NEW REGULATOR .....	258

## LIST OF FIGURES

FIGURE 1: COUNTRY CATEGORISATION RE. GLOBAL HEGEMONIC POWER.....	4
FIGURE 2: KUWAIT'S GEOGRAPHIC LOCATION.....	66
FIGURE 3: INTERNATIONAL OIL PRICES AND KUWAIT STOCK EXCHANGE (KSE) MARKET INDEX.....	88
FIGURE 4: BOURDIEU'S POSITION BASED ON BURRELL AND MORGAN (1979) PHILOSOPHICAL PARADIGMS .....	102
FIGURE 5: "RECURSIVE CYCLES OF BANKRUPTCY LAWMAKING IN GLOBAL CONTEXT" .....	131
FIGURE 6: "RECURSIVE CYCLES OF BANKRUPTCY LAWMAKING IN GLOBAL CONTEXTS" .....	131
FIGURE 7: "FOUR PARADIGMS FOR THE ANALYSIS OF SOCIAL THEORY" .....	156
FIGURE 8: "A SCHEME FOR ANALYSING ASSUMPTIONS ABOUT THE NATURE OF SOCIAL SCIENCE" .....	157
FIGURE 9: PHASES OF THEMATIC ANALYSIS .....	182



## LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ANAN	Association of National Accountants of Nigeria
APB	Auditing Practices Board
BCCI	Bank of Credit and Commerce International
Big 4	Four largest international audit firms: Deloitte, Ernst and Young, KPMG, and Price Waterhouse Cooper (PwC)
Big 5	In their time, the five largest accounting firms: Arthur Andersen, Deloitte and Touche, Ernst and Young, KPMG, and Price Waterhouse Cooper
CA	Chartered Accountant
CACPA	Chinese Association of Certified Public Auditors
CBK	Central Bank of Kuwait; Almarkazi; the banking regulator
CGC	Corporate Governance Codes
CICPA	Chinese Institute of Certified Public Accountants
CIMA	Chartered Institute of Management Accountants
CMA	Capital Market Authority; Alhay'a; the new regulator
CPA	Certified Public Accountant
CPAB	Canadian Public Accountability Board
EU	European Union
E 3+3	Three European countries (France, Germany, and the United Kingdom) and three non-European countries (China, Russia, and the United States). Another equivalent terminology is P5+1 where +1 is Germany
FTSE	Financial Times Stock Exchange
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Cooperation Council for the Arab States of the Gulf
G7	Group of Seven. A forum of "industrialised countries": Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States
HSBC	Hongkong and Shanghai Banking Corporation

IASB	International Accounting Standards Board
IBRD	The International Bank for Reconstruction and Development: Part of the World Bank group
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFIs	International Financial Institutions
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IO's	International Organisations
IOSCO	International Organisation of Securities Commissions
ISA	International Standards on Auditing
KAAA	Kuwait Accounting and Auditing Association
KBR	Kellogg, Brown and Root
KCCI	Kuwait Chamber of Commerce and Industry
KIA	Kuwait Investment Authority
KSE	Kuwait Stock Exchange
MSCI	Morgan Stanley Capital International
NAS	Non-audit Services
OECD	Organisation for Economic Co-operation and Development
PCAOB	Public Company Accounting Oversight Board
PHD	Philosophy Doctorate
PIOB	Public Interest Oversight Board
P5	Five permanent members of the UN with veto power: China, France, Russia, the United Kingdom, and the United States
ROSC	Report on the Observance of Standards and Codes
S&P	Standard & Poor's
SOCPA	Saudi Organisation for Certified Public Accountants
SOX	The United States Sarbanes-Oxley Act
UK	United Kingdom
UN	United Nations
US	United States
USSR	Union of Soviet Socialist Republics

WTO	World Trade Organisation
WW1	World War 1
WW2	World War 2



# 1. INTRODUCTION

Global financial systems have experienced intensified Anglo-Americanising since the Asian financial crisis of the 1990s (Wade, 2007). International organisations (IO's) were empowered by advanced capitalist states to restructure and redefine the rules of global economic arrangements (Arnold, 2012; Halliday and Carruthers, 2009). International financial architecture works in three ways. The first way is *bottom-up*, where the practices of important economies influence the mindsets of international players. Second, *top-down* "direct" interference in the arrangement of nation-states, either coercively or non-coercively. The last form of power for engendering international convergence of financial systems is the most complex of the three, the enforcement of *global norms*.

By global norms, I do not mean the internationalisation of material neoliberal policies, but a type of soft pressure to achieve particular ends. Global norms interplay *bottom-up* and *top-down* models in a non-direct fashion. Several instruments are contained within the logic of global norms: benchmarking, rating, ranking, transparency, and "international best practices". These norms also take the form of measures to pressure countries into institutional and organisational changes. That is, indigenous practices outside the trajectory of global patterns are considered a non-(or less-) legitimate form of modern arrangements (Brown, 2015). Global norms aim to reproduce and then govern the international financial system through the standardisation of indigenous arrangements and the individual mind to support the political embedded logic of economic globalisation, neoliberal rationality (Brown, 2015). Nonetheless, the wide spread of global norms by (Western dominated) IOs could be perceived as a "soft" instrument to institutionalise Western cultural practices.

Within this context, it is worth noting that global norms in general, and international best practices in particular, are widely neglected themes not only in non-positivist accounting studies but also in the broader social science literature. This thesis aims to unpack the structural complexities involved in the



adoption of so-called “international best practices” in terms of audit regulation and the implications of this for the dynamic of power within the Kuwaiti nation-state (more details in Section 1.1).

Some historical events that contributed to the reconstitution of the global (financial) space are worth noting here. Friedrich Hayek proposed ideas for economic liberation in the mid-1940s. He believed that the Keynesian logic of the planned economy leads to dictatorship even in democratic societies (Hayek, 1944)<sup>1</sup>. His book, *The Road to Serfdom*, aimed to provide a road map to destroy totalitarianism by empowering capital over the state. This political project was intensively practised, in the late 1970s and the early 1980s, when Margaret Thatcher in the United Kingdom (UK) and Ronald Reagan in the United States of America (US) were elected. Since then, critical studies (scholars) on accounting, particularly in the UK, began to question the role of accountancy in such political activities.

Research started to identify the correlation between accountancy (ideas and practices) and the neoliberalising of the Western social sphere. Several studies raised concerns about the rising power of the accountancy profession in the national neoliberal(ised) economic space (Sikka et al., 1998; Willmott, 1986). The interplay between the state and the accountancy profession continues to be a significant issue of concern in contemporary (neoliberalised) societies<sup>2</sup>. Studies scrutinise the corporatist arrangement as a mode for governing accountancy in light of local and regional economic (neoliberal) changes that affected the balance of power between the state and the accountancy profession (as part of the broader market) in favour of the latter

---

<sup>1</sup> Keynesianism was adopted in many advanced capitalist states (particularly the US and the UK). This macroeconomic theory aimed to mitigate the social implications of the Great Depression in the late 1920s and 1930s.

<sup>2</sup> In advanced capitalist societies, the anxiety of critical studies on the professionalisation of accountancy is driven by interest in social welfare. States depend on corporations for employment and taxes. However, in a corporatist system, external auditors often are the first and last line of defence against corporate misconduct. Fraudulent activities (with weak oversight) are often costly for capitalist states that adopt such arrangements.

(Cooper et al., 1996; Cooper and Sherer, 1984; Puxty et al., 1987; Robson et al., 1994; Sikka et al., 1998; Willmott, 1986; Willmott et al., 1992)<sup>3</sup>.

After the dissolution of the communist Union of Soviet Socialist Republics (USSR), the ideological and economic conditions of the global space became free for advanced capitalist states to hegemonise, particularly the US (Harvey, 2005, pp. 10, 87). However, in the four years from 1997 to 2001, two major financial crises contributed to the reconstruction of the (international) financial relationship between the West and the non-West: the Asian financial crisis and the multiple financial scandals in large American corporations. However, before moving ahead with the discussion of these two global events, important terminologies must be defined.

I started writing my thesis using the terms “North” and “South” to distinguish between two broad clusters of global powers. For me, “the North” can be used to represent states with international influence, and I considered countries outside this classification as “the South”. However, I realised many powerful states in the global space share different sets of cultures that drive their international practices. So I decided to reclassify countries as Western vs. non-Western to distinguish between the two collections of widely dissimilar cultures.

In the global space, I understand that Western countries do not share equal (global) leverage; they compete with each other to accumulate power. Still, they often take joint action to confront threats to Western civilisation, culture, and hegemony. I found separating Western power (which is underpinned by shared culture) is very difficult. On the other hand, non-Western societies have much more diverse cultures, and consequently, dispersed interests in the

---

<sup>3</sup> In all modes of state regulatory practice, the state empowers (and depend on) various social groups (e.g., the audit profession) to perform specific social function(s) (e.g., legitimacy). The main difference between corporatist and legalist modes of arrangements, is that with corporatist arrangements, the audit profession has more autonomy in governing their micro-practices with minimal state intervention. In contrast, in the legalist mode of regulation, the state extends its involvement to the audit profession micro-arrangements. Differences in the inherited level of state involvement in regulating the micro-practices of audit provide different dynamics to the audit profession as well as the relationship between the state and the audit profession.

global space. Collective action by non-Western countries is rare to nonexistent.

The Western vs. non-Western classification raised another dilemma. As the purpose of this classification is to categorise global hegemonic powers, where are, for example, China, Russia, or even Japan located in this cultural scheme? I decided to embrace the following diagram that explains my more nuanced understanding of global hegemonic groups.

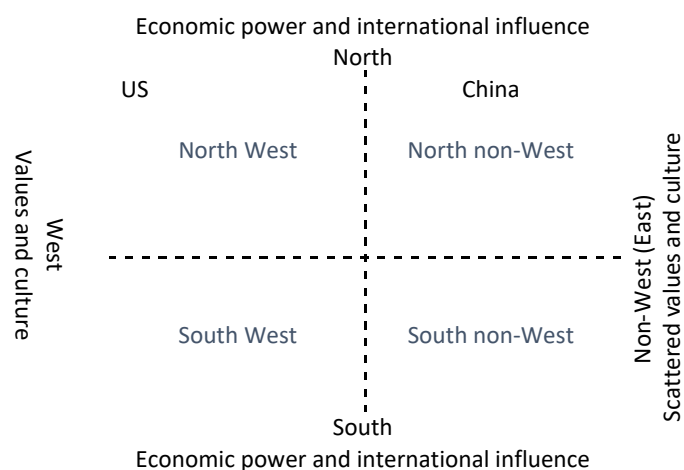


Figure 1: Country categorisation re. global hegemonic power

The terms “North West” and “North non-West” will be used in this thesis to discriminate broadly between two globally influential groups with dissimilar cultures. Also, southern countries with low global power have been categorised based on culture as either Western countries with low hegemonic power (south West) or non-Western countries with less influential power (south non-West).

Back again to the two incidents that changed the relationship between Western and non-Western cultures. Without going into too much detail about these incidents, what is important here is that following the Asian financial crisis, the US influenced the G7 decision to empower IOs (e.g., the International Monetary Fund (IMF) and the World Bank) to reconstruct the architecture of the global economic space (Arnold, 2012; Halliday and Carruthers, 2009).

Harvey (2003, p. 4) explained this new global economic system as a new form of imperialism to ground a *Pax Americana*.

The IMF and the World Bank collaborated and created the Report on the Observance of Standards and Codes (ROSC), a joint force to guide countries in avoiding systematic financial crises partly through advancing neoliberal and capital stimulation policies. Nonetheless, the duties of the IMF and the World Bank were not limited to producing reports and recommendations; for countries in need of monies, facilitating capital was conditioned on structural changes to advance national economic liberation policies (neoliberalism). Accordingly, changes to the balance of power in the global economic space resulted in the growth (and interference) of various IOs and transnational agencies (e.g., OECD, IASB, IFAC, IOSCO)<sup>4</sup>. This new international financial architecture aims to assist/back the IMF and the World Bank in their new hegemonic mission to fulfil the vision of the “North” for a new world order.

The second event that contributed to reconfiguring the conception of international (financial) space happened in the early 21st century. The US witnessed significant financial scandals in large American corporations which resulted in the dissolution of their external auditor, the world’s largest international audit firm, Arthur Andersen. In 2002, the US enacted the Sarbanes-Oxley Act (SOX) intending to change regulatory traditions and arrangements within the US capital market field.

In the audit domain, SOX aimed to change the inherited corporatist self-regulation system through the creation and empowerment of an “independent” body (PCAOB) to oversee the practices of corporate external auditors. Also, additional courses of action were implemented aiming to govern the relationship between auditors and their clients and to enhance the independent opinion of external auditors (rotation and prohibition on specific advisory

---

<sup>4</sup> Collaboration and confrontation are diffused among transnational activities aiming to lead a specific global (material) norms (Halliday and Carruthers, 2009). On the one hand, Arnold (2005) also helped us to understand how transnational players (e.g., international professional services firms) exploit the hegemonic activities of IOs. On the other hand, Davis et al. (2012) argue that some norms are labelled as belonging to a specific transnational agency (e.g., the OECD) while in reality, they were designed by a Western consultancy company.

services for audit-clients). However, such changes by an international hegemonic power became globally recognised and influenced the perceptions and operations of international players as well as some other (Western) countries that follow a similar corporatist system and/or have “interests” in imitating/mimicing the US rearrangements.

SOX regulatory logic became a (bottom-up) benchmark for the activities of IOs. In return, international players exercise (top-down) pressure to change countries’ capital market arrangements on SOX terms, either coercively, through structural reform conditions for funding, or non-coercively, by framing/guiding the perception of nation-states through the production of reports and recommendations. Global norms are used as a secondary layer to pressure for change. International players and global norms reinforce each other to pressure countries to change their traditions. The ranking of a country’s capital market, for example, is not only limited to the amount of trading liquidity, but also to the application of “modern” financial regulatory arrangements similar to the US SOX, which later became “international best practices”.

Membership in prestigious international clubs (e.g., IOSCO) demands regulatory change similar to the US SOX (IOSCO, 2002a, 2002b). The establishment of a specialised “independent” body (similar to the US PCOAB) became an international best practice in the oversight of the audit profession. Likewise, modern technologies to promote auditors’ “independent” opinions on the trustworthiness of their clients’ financial positions became (partially) measured by the application of rotation and prohibiting advisory services as well as increasing the role of company audit committees (IOSCO, 2002a, 2002b). The IFAC Code of Ethics emerged to standardise audit “quality” by advancing Anglo-American logic across the globe (IFAC, 2015)<sup>5 6</sup>.

---

<sup>5</sup> For IFAC’s Code of Ethics, audit independence is clearly driven by SOX logic. Rotation of external auditors is limited to partners (IFAC, 2015, pp. 75-7) and prohibition of advisory services followed SOX classification of prohibited services (IFAC, 2015, pp. 77-96).

<sup>6</sup> Similarly, the 2014 European Union (EU) audit legislation (effective 2016) follows the same logic of SOX and its subordinate, IFAC. The EU required enhancing state-audit oversight and various measures to enhance auditor independence. However, while on paper, the EU

Modernising the function of the external audit became associated with empowering an “independent” body to oversee the practices of auditors as well as implementing micro-technologies such as rotation and prohibition of (some) advisory services for the audit client. Following these international best practices was purported to lead to (fictitious) social prosperity and an attractive environment for foreign monies.

With the hegemonic forces of globalism, some critically-inspired audit research considered examining the creation and operation of an “independent” oversight body (similar to the regulatory logic of the US PCOAB) to change the inherited self-regulation of corporatist arrangements. Five countries were studied--Canada, France, Greece, Ireland, and Russia--to understand the dynamics behind attempts to “standardise” national regulatory systems (Alon et al., 2019; Canning and O’Dwyer, 2013, 2016; Caramanis et al., 2015; Hazgui and Gendron, 2015; Malsch and Gendron, 2011).

These studies have similarities and differences. Regarding their similarities, all five societies followed a neoliberalised economic system as well as corporatist logic before the regulatory change. Henceforth, the underlying dynamic of change resulted in conflict mainly between two social groups: the audit profession and those advancing the operation of the newly created oversight body. Likewise, methodologically, all prior studies looked at the problem of regulatory change from an international standardisation perspective. The differences relate mainly to each country’s particularities of history and social system that affected the dynamics of conflict as well as the outcomes of structural change. However, except for Malsch and Gendron (2011), this literature often escapes answering “why” transformation happens and covers this shortage in knowledge with claims for global standardisation/US imitation.

---

requirements look more rigorous in comparison to those of the US, as they mainly depend on national enforcement power, the EU followed SOX logic with regard to the classification of advisory services.

## 1.1. Motivation and objectives

My aim is to complement prior studies on regulatory audit change by examining why and how Kuwait implemented/“localised” SOX-driven “global-norm” “modern” audit regulations. Global norms in general and “international best practices” in particular are disseminated internationally to influence and change many aspects of social, economic, and political life. However, accounting and auditing research has not considered in detail how nation-state(s) reproduce themselves in line with these exogenous forces which are used to influence changes to the dynamic of power within nation-states in general and audit regulatory practices and settings in particular. With this in mind, and for several other reasons, Kuwait makes a compelling case for research. As a major oil producer, albeit one that participates in the global order for oil, it has been independent of the direct constraints of the financing conditions frequently imposed by IOs. Its economic system depends mainly on oil (which is owned and produced by the state), has no local corporate tax, and its political regime has been defined (without change) since the revocation of the protectorate agreement with Britain in the early 1960s. These social factors, including its distinctive history, make Kuwait a unique context for study.

Importantly, for this research, unlike most prior studies that examine the state-accountancy profession relationship underpinned by a corporatist arrangement, Kuwait follows a “legalist” mode of regulations. It has a distinctive legal structure regarding audit practice since legally there is no such thing as an “audit firm”. So while all members of the Big 4 have a presence as full members in their global networks (with noticeable variation in market share), corporate audits are signed off by *individuals* and not firms (which legally do not exist).

As SOX-driven “international best practices” had been developed mainly within corporatist systems, the value of examining a unique context (Kuwait) with its different mode of regulating auditors practices (legalist) is that it offers different perspectives (and new insights) into the internationally-driven changes to indigenous settings and traditions; it further develops a deeper understanding

of the relationship between internationalisation forces, nation-state(s), and national audit arrangements and practices.

Four objectives will help achieve my fairly complex aim. While prior studies focused on regulatory changes to the audit profession self-regulatory model in states with corporatist arrangements, as I argued earlier, Kuwait follows a legalist system. This means that the state of Kuwait had regulated auditor practice before the implementation of global-driven regulatory change. The reform included a new “state” regulator to participate in (re)regulating audit practice within capital market companies. Accordingly, my first objective is to identify how the newly created bureaucratic agency was able to transcend the bureaucratic field and control audit regulations, despite the existence of other long-standing state financial regulator(s) that used to collaborate in regulating audit practices.

My second objective is to assess why and how the audit field responded to the new regulator’s demands to modernise audit practice. In Western systems, regulatory reform often includes an element of the democratic process; for example, a public consultation process, the inclusion of professional representation in regulatory reviewing groups, and/or audit profession involvement in the oversight bodies/regime. The influential accountancy profession (with inherited regulatory power) uses these (democratic) processes to protect the interests (power) of its prominent members by subverting/obstructing regulatory change. Whether democracy in this context is good or bad is outside the scope of this research. However, Kuwait does not follow similar (democratic) regulatory processes and does not have a powerful accountancy body. The new regulator planned and decided to modernise audit practices all by itself, without the inclusion of the audit profession. Therefore, the dynamic of conflict within Kuwait is different from the Western logic which dominates the literature extant.

My third objective is to evaluate the implications of the conflicts between the new regulator and the audit field. This objective is very challenging but worth pursuing. The micro-technologies of regulatory standardisation, such as



regulations for rotation and prohibition of advisory services, are widely neglected by non-positivist accounting research (see Section 2.5). The majority of earlier studies assume (or take for granted) that the application of these measures “could” be potential solutions to the embedded contradictions of the contemporary external audit function. That is, the conflict between the commercialisation of social life and the social purpose of the external audit where auditors and audit firms are part of the same commercialised (social) space (Carter and Spence, 2014; Sikka, 2015)<sup>7</sup>. However, my findings suggest the opposite. The implementation of international best practice micro audit technologies must be subject to critical examination.

As Kuwait is not dependent on funding from IOs--with their frequent requirements to reform institutional arrangements and regulatory practices--my fourth objective is to understand why Kuwait modernised/changed its local regulatory arrangement and aimed to implement micro audit technologies based on the Western-driven global norm.

Having located my research problem in prior knowledge, and defined my aim and research objectives, the following section summarises the methodological process I use to investigate how and why Kuwait modernised its capital market audit regulations.

## **1.2. Methodology and methods**

Consistency in the research(er)’s philosophical positioning is vital (Burrell and Morgan, 1979; Cunliffe, 2011; Morgan and Smircich, 1980). The methodological location of this thesis, based on the Burrell and Morgan (1979) explanation of research philosophy and their paradigmatic separation, is somewhat controversial. My methodological position backs the arguments of Hopper and Powell (1985) and Ryan et al. (2002) on the hazard of splitting “critical” paradigms. The philosophical assumptions of my thesis combine both structuralist and humanist paradigms. This methodological choice recognises

---

<sup>7</sup> Here, I am not criticising prior studies that neglected to examine the contradiction between audit (as a social verification) and capitalism (that promotes private accumulation), but on their not questioning modern technologies that are propagated to move audit practices forward.

the socially constructed nature of accountancy practices without neglecting the underlying social arrangements and it's taken for granted systems.

A case study approach was adopted to explore (in-depth) the phenomenon of the application of modern audit regulations in Kuwait. Semi-structured interviews were carried out with key actors who produce (regulators) and implement (accountancy profession) accountancy regulations<sup>8</sup>. Interviews are the primary source of data and were carried out in different fields: audit firms, the accountancy body, and the three state financial regulators<sup>9</sup>. A predetermined interview agenda was designed to cover four specific themes: the dynamic of the audit field, the relationship between audit firms and state regulators, the application of Anglo-American accountancy regulations to Kuwait, and the rationality behind "localising" Western financial systems.

Following the guidelines of Braun and Clarke (2006), thematic analysis was carried out to analyse the collected data. As well, two (related) theoretical lenses were adopted to help analyse and explain the collected data, and understand the problem under study: Bourdieu's practice theory (including his theory of the state), and Halliday and Carruthers' theory of recursivity. Additionally, the thesis draws from Brown's (2015) theorisation of international best practices to consider the modernisation of the Kuwaiti audit regulations.

### **1.3. Findings overview**

In Kuwait, attempts to "modernise" and to reform audit practices ignited an enormous battle between influential social groups. Conflicts surrounding changes to institutionalised traditions and arrangements mirrored a struggle in the field of power. However, unlike prior studies that examined corporatist systems, the legalist mode of regulation in Kuwait resulted in a battle not only between the audit field, influential social groups (e.g., merchant groups), and the new regulator, but were mainly inter-governmental. Nonetheless, as political interference (including by some ruling groups) in government agencies

---

<sup>8</sup> On the consumption axis, private companies were deliberately excluded from my research design. For more detail, see Section 5.4.3.2.

<sup>9</sup> Another source of data is a detailed review of local financial laws and regulations.

varies, the accountancy profession was located in the middle of a broader bureaucratic battle over who would lead the changes to audit regulations.

As the Ministry of Commerce (the audit law enforcer) was perceived to be weak in its audit oversight function, the new regulator planned to change the course of auditor practices by implementing new global-driven norms with embedded logics that confronted local (inherited) traditions and raised challenges to the balance of power within Kuwait's social structure. Consequently, former financial regulator(s), influential auditors, and some (other) influential social groups collaborated to obstruct the (audit) modernisation agenda of the new regulator. However, in addition to explaining the dynamic of the bureaucratic conflict, I was able to identify specific strategies employed by the new regulator to accumulate (bureaucratic) power and confront its opposition. As part of this battle, influential auditors used the "powerless" accountancy body to form a collective resistance. They challenged not only the regulations changing auditor practices, but also the legitimacy of the new regulator.

Firm rotation was perceived by many social groups as a significant threat, a disturbance to the (long-term) mutual social investments between former regulators, influential auditors (some of the Big 4), and local banks (which are mainly controlled by "some" ruling groups)<sup>10</sup>. Consequently, influential auditors encountered firm rotation and challenged the ambiguity of this global technology in a legal setting that does not recognise "firms". However, to mitigate the struggle, some influential auditors engineered rotation requirements based on an existing (rather old) audit law. This resulted in the application of a strange type of "partner" rotation but with no significant changes to the structure of the audit field and the "social investment portfolio" of influential auditors. In other words, the outcome of (social) conflict resulted in the signal that Kuwait had implemented the international best practice of audit rotation, but, in reality, it was manipulated to maintain the status quo for social actors with symbolic social status.

---

<sup>10</sup> More detail on ruling groups is offered in Chapter 3.

Arguably, such gaming activities by the locals to confront exogenous influences could travel to the broader social space. If social actors become involved in similar behaviours to protect their interests and status, such practices could have potential (moral) hazards for society. My point here is that economic globalisation offers opportunities for societies to engage in malpractice.

My story does not stop here. I was surprised that the collective resistance of the audit field did not reject the new regulatory demands for a “full” prohibition on non-audit services. My findings suggest that the regulatory understanding of advisory services was long framed by influential auditors. The same understanding was carried forward by the new regulator. Ironically, the prohibition on advisory services does exist but has long been designed to allow audit firms to provide whatever services they desire!

Lastly, I reflect on two inquiries related to the question “why”. First, why did modernisation happen? Second, why late modernisation? Concerning my latter inquiry, Kuwait is argued to be late to modernise its capital market and audit regulations in comparison to its neighbour countries, despite the *doxic* belief in international solutions to Kuwait’s social problems. My findings suggest that the social implications of the global financial crisis of 2008 was a golden opportunity for some ruling powers to overcome locally rooted forceful groups that oppose changes that challenge the way they maintain their symbolic status.

On the question of why global norm driven changes were made to the capital market arrangements, I found no single answer to this complicated question. The Kuwaiti locale, as my findings suggest, take for granted the supremacy of Western financial arrangements over local tradition(s). I argued that such social submission has been grounded for many reasons: the teaching of an Anglo-American curriculum in Kuwait universities, the openness of Kuwait to expatriates from a variety of cultures, the interference of the West in Kuwait during and after the Gulf War, and the influence of Western cultural ideas through the involvement of the IMF and the World Bank in Kuwait locales.

My findings also suggest that the local rationalisation that Western-driven-global-norms changes to local regulatory arrangements could be potential solutions to the ineffectiveness of the Kuwaiti government in promoting social progress. Similarly, for the modernising of local systems to compete with regional markets in attracting foreign money. Additionally, there is also a salient understanding between senior officials that attracting foreign monies (through the modernising of financial systems to legitimise local arrangements in the international space) contributes to elements of national security.

## **1.4. Contribution**

This thesis is one of the first studies that investigates the application and implications of “international best practices” in terms of audit regulations. I do so by examining Kuwait, a unique non-Western country with a “legalist” mode of audit regulation. The first contribution this thesis makes is to the literature that explores the dynamics of applying SOX-driven changes to countries’ regulatory framework in corporatist systems (Alon et al., 2019; Canning and O’Dwyer, 2013, 2016; Caramanis et al., 2015; Hazgui and Gendron, 2015; Malsch and Gendron, 2011). Kuwait’s audit regulatory arrangement (before and after change) is different than the contextual traditions of prior studies. The Kuwaiti state regulates auditor practices with the existence of a powerless accountancy body which happens to be regulated by the state as well.

My second contribution is to the international best practices literature. This particular global norm is neglected in critical studies. In fact, to my knowledge, prior research considered the broader standardisation practices, but none specifically explains international best practices in the accountancy domain. This thesis aims to open a new space for critical accounting research. That said, international best practices are employed to regulate many aspects/practices of/in social life and are linked to a complex web of global governance dynamics and power. In this thesis, I only focus on some aspects of SOX-driven international best practice audit micro-technologies such as audit rotation and prohibition of non-audit services. My findings suggest that following best practices must not be taken at face value. Countries aim to

achieve specific interests (e.g., legitimacy in the global space) by signalling proper application of modernised indigenous practices but also (sometimes)<sup>11</sup> engage in gaming (manipulating) the global (power) trajectory to maintain national social order.

My third contribution is to the literature that explores the state-accountancy relationship in non-Western systems. This literature, according to Chua et al. (2019), still lacks in-depth investigation. The majority of these particular studies recognised state power in regulating auditor practices, but often focused on the historical formation of the profession or were driven by the post-colonial lens, without considering detailed (contemporary) regulatory arrangements. In the Arab world, critically-inspired accounting studies are minimal (Gallhofer et al., 2011), and in Kuwait, critical perspective on accounting research is almost absent. This thesis contributes to the non-Western literature by unpacking the regulatory arrangements of Kuwait, a country in a region that is merely regarded as consisting of rich oil-producing societies.

## **1.5. Organisation of the thesis**

This thesis is structured as 10 chapters. Following this introductory chapter, the literature review chapter consists of five parts. The first and second parts focus on prior studies that examined the relationship between the state and the accountancy profession in Western and non-Western contexts. It is worth noting that mainly Western research dominates these particular studies. As this thesis is interdisciplinary and guided by sociological theoretical framing, the third part identifies prior studies on the sociology of the accountancy profession. However, as the theoretical framing of this thesis is heavily built around Bourdieu's ideas, the cited literature on the sociology of the accountancy profession focuses only on studies that adopted Bourdieusian theories. The fourth section in Chapter 2 navigates prior studies on the globalisation of US audit arrangements. The last part examines prior research on international best practices.

---

<sup>11</sup> Especially for technologies that disturb local order.

Chapter 3 explains the context of the empirical case, Kuwait. It starts by providing some general geographic and demographic information on Kuwait. I then move to explain the genesis of Kuwait as well as significant phases in Kuwait history, the uniqueness of Kuwait's economic, political, bureaucratic, and social systems.

Chapter 4 illustrates the theoretical framework that guided the trajectory of this study. I intend to cover two theoretical lenses. First, Bourdieu's practice theory (including the state). Second, Halliday and Carruthers' work on recursivity which is appreciated to help in the understanding of transnationalism. I argue that, methodologically, recursivity works well with Bourdieu's social theorisation.

Chapter 5 discusses my research methodology and methods. In this chapter, I will provide some explanation on my research philosophy and the methodological positioning of my thesis. I then move to explain my research design, the case study. In this chapter, I provide details on the organisation of my collected data as well as my data analysis. I categorise my findings in three chapters (Chapters 6 to 8).

Chapter 6 provides the regulatory audit framework in Kuwait. This chapter has three sections. Section 1 explains the Kuwaiti regulatory framework before the change. Section 2 discusses the interference of IOs in pressuring Kuwait to change its regulatory arrangement. In section 2, I also offer my findings on why the Ministry of Commerce (the antecedent sole regulator) was perceived to be weak in its oversight function. Section 3 of this chapter explains changes to the regulatory framework as well as the required changes to the capital market audit regulations. I intend to demonstrate the further interference of IOs after the regulatory change and my findings on why Kuwait followed the internationalisation trajectory.

Chapter 7 is the second part of my findings. In this chapter, I focus on the conflict surrounding attempts to modernise Kuwait capital market audit practices. Chapter 7 covers two struggles. The first part demonstrates the bureaucratic conflict between the newly established regulator with long-

established regulators that used to collaborate in regulating audit. Also, it covers the new regulator's strategies to confront the other agencies. The second part explains the rationalisation of the audit field actors for resisting the new regulator's modernisation programme and their strategies for facing the new regulator's modernisation agenda.

Chapter 8 focuses on the outcome (implication) of conflict between the new regulator and the audit field to modernise capital market audit practices. In this chapter I aim to concentrate on two international best practice driven micro audit technologies that I found the most challenging to the dynamic of the audit field: changing firm rotation to "partner" rotation, and the silence of auditors on the new regulator's proposal to implement "full" prohibition of non-audit services.

Chapter 9 discusses my findings and theorises why and how Kuwait modernised its capital market audit regulations. In this chapter, I elaborate the "how" question in three parts. First, a reflection on the inter-governmental battle within the broader field of power. Second, the exploitation of influential auditors of the collective lobby to advance their "private" interests. Third, the customisation of micro audit technologies to maintain the structure of the audit field by deceiving both the global and the local. The last part of this chapter discusses the *doxic* submission to international rules and the lateness of Kuwait in modernising its capital market regulations in comparison to its regional neighbours.

The final chapter concludes this thesis. It will illustrate my contribution to knowledge, the practical implications to Kuwaiti policymakers, its potential limitation(s), recommendations for future research, and concluding remarks.





## **2. GLOBAL NORMS AND THE STATE-AUDIT PROFESSION LITERATURE**

### **2.1. Introduction**

In Western societies, with the intensification of the political processes to neoliberalise their social life, many accounting scholars recognised the role and implications of accountancy in these processes. Several calls had been raised to locate accountancy practices where they belong: the political sphere (e.g., Cooper and Sherer, 1984; Willmott, 1986). In the non-Western world, Anglo-Americanisation logics and practices have been enabled to spread and govern the global space through accounting technologies (Arnold, 2012).

In this chapter, I aim to provide an overview of prior literature that investigated the relationship between the nation-state and the audit profession without neglecting the (direct and indirect) forces of the system of economic globalisation and its influence on (institutionalised) local arrangements. It is worth noting that prior studies that examined audit regulations within the global context, in both Western and non-Western settings, are relatively few. In the Arab world, such a critically-inspired investigatory model is scarce (Gallhofer et al., 2011).

This chapter is divided into five parts. The first section illustrates studies on the relationship between the state and audit profession in the Western context. I will start by illustrating seminal works that theorised modes of regulations and the dynamic relationship between the state and the accountancy profession. Arguably, although these studies are relatively old and north-Western dominated, they continue to influence the trajectory of current research on state-profession dynamics in both West and non-West research. The first section will also reflect on studies that considered the regional and global influences on such (north-Western) relationships.

The second part will look at studies on the relationship between non-Western states and the audit profession. However, as the majority of this particular literature adopts (post)colonial and/or historical formation perspectives, I

intend to focus on state-profession studies outside these focuses. The second section of part two will demonstrate how prior studies recognised the influence of economic globalisation on the relationship between the non-north Western state and the audit profession.

Part three is intended to examine the sociology of the audit profession literature. However, as I am heavily dependent on Bourdieusian theorisation, this section will only examine Bourdieusian driven studies on the sociology of the audit profession. Part four of this chapter emphasises the globalisation of US audit arrangements, particularly the SOX. This part will offer scholarly critiques on US audit solutions as well as studies that examined the application of SOX globally inspired changes to non-US regulatory settings. The last part of this chapter examines one of the salient global norms: international best practices. As this particular norm is outside the radar of critically-inspired accounting research, I will explain relevant (non-mainstream) studies outside accounting, particularly in the public administration and sociology literatures.

## **2.2. North-Western theorisation of the state-profession relationship**

Accounting and auditing practices do not act independently of the social space in which they operate (Cooper and Sherer, 1984; Miller, 1990; Willmott, 1986). In the 1980s, with the rise of the neoliberalising of Western social life, accounting scholars (especially from the UK) started to identify the role of accountancy in such a political process. The seminal work of Puxty et al. (1987) was one of the early attempts to theorise the reciprocal relationship between accountancy and the social space in which it operates. Puxty et al., following the Streek and Schmitter model, stresses examining accountancy from the perspective of maintaining social order. Western order used to balance relations between the state (coordinated via hierarchal control and bureaucracy), market (coordinated via competition), and community (coordinated via solidarity). This accounting regulation approach stresses the system of power accumulation (Cooper and Robson, 2006, pp. 429-30).

Puxty et al. (1987) compared strategies of accounting regulations in four Western societies: Germany, the UK, Sweden, and the US. They found variation in the modes of regulations as each country has a different history and social system (culture) which influences accountancy regulation. Additionally, they theorise that accounting regulations depend on four (possibly shifting and combinatorial) strategies to societal order: legalism, corporatism, associationism, and liberalism. This particular study is one of the core bricks in the wall of “critical” accounting regulations literature.

To understand the similarities and differences in the way social order is maintained in these four advanced capitalist societies, Willmott et al. (1992) investigated their development of disclosure regulations and corporate accounting treatments. They argue that differences between these countries are mainly based on particularities of state institutional arrangements, while similarities are mediated through the parties involved in the political process in directing accounting regulations (Germany is found to be dissimilar because of its different historical and national context).

Richardson (1989) tried to extend the Puxty et al. theorisation through analysing corporatist accounting control and the maintenance of social order in Ontario, Canada. However, half of Richardson’s paper was dedicated to providing an alternative account to Puxty et al.’s corporatist theorisation. Richardson criticised the Streek and Schmitter model for omitting the importance of values and the relationship between values in the social context. In this paper, the Gramsci theory of hegemony (consent and coercion) was used as an alternative theoretical framework for understanding order in the social world. Richardson explained the hegemonic strategies of the Institute of Chartered Accountants of Ontario in the intra-professional conflicts on controlling the accountancy profession.

Studies started to examine (at the national level) the politics of accountancy regulations in the corporatist approach to maintaining order. Sikka and Willmott (1995) for example, examined the state-accountancy profession relationship by studying the UK Department of Trade corporate arrangement in two errant

companies, Ramor Investments and Euroflame Holdings. Sikka and Willmott found that the UK government involved audit partners (from audit firms that failed to audit these companies properly) in the inspection of these errant companies. Additionally, accountancy bodies were allowed to have early access to inspection reports which allowed the profession to be prepared for any type of criticism. This *indulgent relationship*, as coined by Sikka and Willmott, is theorised to protect the legitimacy, credibility, and effectiveness of the accountancy profession in its role of promoting investor and public confidence in the objectivity of financial information.

In another study, Sikka (2002) argue that during the 1980s and the 1990s, due to corporate failure, fraud, and audit failure, the UK, in 1991, established the Auditing Practices Board (APB) to interfere in the accountancy profession's self-regulation/corporatist arrangement approach. Sikka, based on personal engagement, explained the political struggle surrounding changes to the accountancy practices in the UK.

Sikka found that the state establishment of APB was designed to not contradict with capital's accumulation and the audit profession's legitimisation functions. This was evidenced through the facilitating of the audit profession's control over audit standards setting, excluding the public from attending APB meetings and denying it access to the meeting minutes, and collaboration between the state and the accountancy profession to implement controls over public consultation exercises. Sikka also found that the selection process of APB chairman and members is done by organisations that give priority to capital: the Bank of England and London Stock Exchange. Non-audit representation became limited to capital representatives (company directors). Sikka argues that combining auditors with their clients (corporations) in setting auditing standards is a regulatory process that undermines the social function of the corporate audit system.

In a historical study, MacDonald and Richardson (2004) examined the process of implementing a law on the right to practice auditing in Ontario, Canada in 1950. MacDonald and Richardson found that the system for granting audit

licensing is one of the strategies used by the state regulator to reconstruct and secure a position in the regulatory space with accountancy profession associations. Interestingly, they argued another approach was the institutionalisation of contradictions to existing arrangements by the state regulator, reshaping the regulatory space and aiding the legitimacy of the accountancy regulator.

Robson et al. (1994) analysed the dynamics of the UK state-profession relationship in the responses of accountants to three regulatory episodes by focusing on the interplay between the ideology of self-regulation and the accounting profession's quest for markets. First, concerning the European Eighth Directive, they found collaboration between the state and the profession to override independence requirements in order to support the expansion of UK audit firms to European markets.

The second episode was an attempt to incorporate self-regulated bodies that offer investment advice, including the accounting profession, in the Financial Services Act to be under the regulation of the government for investor protection purposes. The accounting bodies lobbied to be recognised as a profession. They succeeded through pressure to implement a special category (recognised professional bodies) that protected their image of professionalism as well as their ability to continue providing advisory services without government interference. Finally, the last regulatory episode was a proposal to enhance the governance of ICAEW (the UK's leading accountancy body) by segmenting/dividing its members based on their functions. ICAEW rejected this proposal and supported the existing structure but agreed on additional governance to balance both the self-interest of its members as well as the public interest.

It is clear that, even in a corporatist system which dominates the logic of this literature, the accountancy profession cannot operate in a society without the authorisation of the state. The state empowers actors to operate a profession and provides them with markets to monopolise (e.g., statutory audit). This literature suggests that the dynamic relationship between the state and the

profession is not only derived by inherited modes of regulations, but also by similarities and differences of “interests” between the state and audit profession. On the one hand, the accountancy profession seeks to maintain its image of professionalism and the inherited self-regulation system and find new markets to expand. The state, on the other hand, wants to increase its accumulation of monies and ensure that the broader social order is not disturbed. The next section will provide studies that examined the external influences on the state’s modes of audit regulation and order.

### **2.2.1.Regional influences on national state-profession corporatist arrangements**

In the 1980s, the European Union (EU) started to standardise (minimum) regulatory arrangements within its member states. Accounting studies began to consider how these regional involvements influence the relationship between states and the local accountancy profession. Cooper et al. (1996), for example, expanded the work of Robson et al. (1994), mentioned earlier, on the Eighth Company Law Directive of 1984. Cooper et al. argue that the EU attempt to harmonise education, training, and qualifications of the statutory audit in member states was found to challenge the UK state-profession arrangement for the national neoliberal shift.

Both the state and the accountancy profession collaborated to maintain their relationship by rejecting most of the EU requirements that challenged the Big 4’s competitive advantage (especially those related to audit independence) over other European audit firms and the potential expansion of the Big 4 to EU markets. Consequently, the UK government only implemented requirements that did not challenge the relationship and corporatist interests between the UK state and the accountancy profession, which resulted in maintaining the *status quo*. Cooper et al. put it this way:

It is too simplistic to assert that such international regulations are implemented merely so as to maintain current relationships (the “status quo”): as we see with the Directive, international regulations become the site for negotiations and struggles between professions and nation states concerning issues that are sometimes as indirectly associated

with their subject, as they are specific to national contexts ... The “politics” of accounting regulation have the character of a contest played out not only at an international level in terms of notions of competing national-professional “interests” but continuing through into the implementation of directives into national law in ways structured by the features of the institutional relationships between the State and the profession. (p. 609)

In Denmark, with its different social system, Jeppesen and Loft (2011) investigated the implementation of the same EU directive. They found that this requirement, as it recognises a single group of auditors, created conflicts between “two types of local audit groups” (top tier since 1909 and second tier with only experience requirement since 1970) that have substantial differences in education, training, and expertise. This requirement, according to Jeppesen and Loft raised conflicts between the two local audit groups, including universities and the accounting body from 1984 on, which only ended in 2006. However, similar to the Sikka (2002) argument, Jeppesen and Loft found that accountancy bodies secured their influence by occupying seats on the state examination committee and hence controlling the examination process.

Caramanis (1999) examined the harmonisation of Greece’s audit system with the EU, which resulted in liberating/revoking the monopoly of indigenous auditors and the inclusion of international accounting firms. In this study, Caramanis examined the conflict between the government, political parties, international accounting firms, and indigenous auditors in restructuring the audit profession there. The Greek government and international accounting firms lobbied and collaborated mainly because they had shared interests. International firms want to revoke indigenous enclosure, and the government wants to restructure (neoliberalise) the Greek economy. Accordingly, the government was able to manoeuvre parliamentary oppositions that sided with indigenous auditors. To lessen conflict, the government proposed legislation to create a body to suggest reforming the audit profession which later, after its creation, constrained the involvement of indigenous auditors. A reform decree was signed by the president, not the parliament.



There are few studies on the “regional” harmonisation of accounting regulations outside the EU standardisation programmes. The EU standardisation programme is found to have different implications on its member states because every state has unique political and economic settings and local arrangements, and consequently maintains order differently.

The next section explores how globalisation affects the balance of power between the state and the audit profession, which often favours those supportive of capital.

### **2.2.2. Globalisation and audit in North-Western states**

Globalisation works differently not only between Western and non-Western countries, but also within the West and the non-West. In all cases, globalisation empowers capital and those who provide services and markets to capital, such as international accounting firms, over nation-states. However, the alliance between a powerful Western state and international audit firms represents an influential group in governing the trajectory of economic globalisation (Arnold and Sikka, 2001, p. 476).

The following section explains the few studies that examined the relationship between globalisation and north-Western countries. In a later section, I will explore similar studies that researched the relationship outside the north-Western context (Section 2.3.1). However, as we will see next, with the increase of external (global) forces in the way societies maintain order and regulate accountancy, studies started to be scattered (Arnold, 2009, p. 808). This was apparent for Western as well as non-Western research. It is unclear to me if such diversion is because power (within the economic globalisation context) became more sophisticated (Cooper and Robson, 2006, p. 426; Yee, 2012, p. 429), or the research focus moved to the global regulatory site (Samsonova-Taddei and Humphrey, 2014, p. 904). I am not generalising this claim, but it is something I have noticed through reviewing the literature.

In the UK for example, Arnold and Sikka (2001) investigated the scandals of the non-Western world’s fastest growing bank, BCCI (Middle-Eastern owned),

headquartered in London and licensed by the Bank of England. Arnold and Sikka argue that the Bank of England was able to close BCCI due to its suspicious operations since it moved its headquarters to the UK in the 1970s. Still, it only did so when BCCI became a threat to the legitimacy of the UK financial system and the reputation of London as a capital city in the early 1990s (Arnold and Sikka, 2001, p. 492).

Arnold and Sikka found that the UK corporatist reliance on the opinion of external auditors induces collaboration between the state and the accountancy profession mainly to balance/protect agendas for encouraging international capital inflow and protecting auditor functions in forming investor/public confidence in audit firm opinions, despite weaknesses in audit technologies and the improper practices of BCCI external auditors.

In the same capital centric state policymaking, Sikka (2008) investigated threats of UK based audit firms (Ernst & Young and Price Waterhouse) on the UK government to enact limited liability partnership legislation (auditors liability concessions). Or move their offices to the Island of Jersey (south of Britain but independent from British and EU laws). Eventually, the UK government, to protect its agenda/interests for attracting capital, submitted to international audit firm demands for liability concessions.

As these two studies suggested, the ability to move capital out of capitalist economies has various social implications (e.g., market reputation, employment, tax) which sometimes empowered international accounting firms over nation-state regulatory activities. Henceforth, as the accumulation of capital is one of the logics of the state to maintain its power/order (Bourdieu, 1994; Catchpowle et al., 2004), globalisation offers strategies to capital, and those who provide services to capital, to pressure states to submit to their demands.

Before I move to characterise the state-audit profession relationship outside the north-Western context, the following section cover how international accounting firms use globalism (e.g., transnational agencies) to pressure and influence the balance of power within nation-states in their favour. The reason

for covering these studies is that I found some of these (transnational) strategies had been adopted by some representative(s) of international audit firms operating in Kuwait (see Section 6.3.2).

### **2.2.3.Strategies of international audit firms at the level of transnational agencies**

With the intensification of economic globalisation, Suddaby et al. (2007) theorised that the emergence of transnational fields resulted in significant changes to the authorities of the accountancy profession. Suddaby et al. study focused on four structural changes: boundaries (the move of regulatory power from states to transnational agencies), logic (from social trustee to a mediator of economic commercial exchange), identity (elite vs. traditional firms), and power (from hard/coercive state power to soft/normative power to shape the profession and its role in nation-state). Suddaby et al. (2007) argue that although transnational organisations replaced the nation-state function in regulating the accountancy profession, the state continues to be an essential player as transnational agencies rely on the state's coercive power to empower and discipline the accountancy profession operating within state boundaries.

Arnold (2005), found that the transnational accounting industry (international accounting firms and transnational accounting agencies; e.g., IFAC) and Anglo-American industry lobbies "exploited" the World Trade Organisation (WTO) General Agreement on Trade in Services (GATS) to create an international market for their commercial interests. Arnold argues that the transnational accounting industry influenced GATS requirements for domestic laws on audit licensing and qualification standards to win markets from indigenous auditors and to create a freely mobilised accounting labour market.

As transnationalism is argued to empower the international accountancy profession over nation-states (Suddaby et al., 2007), accounting research also identified strategies of these firms to influence the operations of transnational agencies to advance their interests. Loft et al. (2006), for example, investigated the IFAC reform of 2003, a transnational organisation that attempted to issue

standards that aim to govern auditors practices. Part of the IFAC reform, according to Loft et al., was to establish a body responsible for the oversight and public interest activities of IFAC (Public Interest Oversight Board, PIOB); this committee was within the IFAC organisational structure. However, they found that the Forum of Firms as a body was created for international accounting firms to have representation in the IFAC structure, but outside PIOB oversight responsibility.

Concerning IFAC operations, Loft et al. found that IFAC focused on governing its operations through expertise, not through its member representations. The Big 4 exist in IFAC operations in their own right, not through member representations. They raised the point that the IFAC system generates conflict. International audit firms participate in and influence IFAC operations, and at the same time, they are the major financial supporters for an organisation that tends to govern international audit firms practices. They also criticised the process of IFAC on the grounds that a small number of elites (mainly from the Big 4) participate in standards-setting on behalf of millions of auditors. Also, countries vary considerably in their ability to influence IFAC standards-setting.

With a similar thematic investigation, Samsonova-Taddei and Humphrey (2015) explained how international accounting firms were “partially” successful in influencing the EU for further liability concession. International firms were (partially) able to achieve this, they argued, because of their involvement in the EU governance structure. Accordingly, infiltration of regulatory committees is a salient strategy that international audit firms often use to advance their interests, not only at the transnational level as per Samsonova-Taddei and Humphrey (2015), but also at the local north-Western level as demonstrated by Sikka (2002) in the UK APB. I found a similar situation in non-Western Kuwait (see Section 6.3.2).

With the global financial crisis of 2007/8, Sikka (2009) criticised the silence of auditors in facing their audit-clients on suspicious (risky) activities that partially resulted in this crisis, and instead of reforming and blaming the current audit system, the accountancy profession used the crisis as an excuse to demand

more concessions. Humphrey et al. (2009), in return, argue that the accountancy profession is active in (re)shaping/framing the regulatory response of international regulators on the global financial crisis.

One of the important messages that this literature is trying to deliver is that extending corporatist ideas to the transnational level and allowing the audit profession to be involved in regulating their practices (at the transnational level) often results in regulations that empower the accountancy profession to protect and advance their own interests.

Now I move to the second part of this chapter, audit regulations and the state-profession relationship in the non-north-Western context.

### **2.3. The relationship between “non-advanced Western” states and the audit profession**

Unlike the arrangements of the majority of Western states in relying on the accountancy profession to regulate audit professionalisation, in the non-Western world, Chua et al. (2019) correctly argued, the state (explained as government) is often “the dominant” player. However, in non-Western settings, the literature on audit regulations and the state-profession relationship lacks in-depth examination (Chua et al., 2019, p. 2268). Critically-driven research on accountancy in the Arab world (including Kuwait) is minimal (Gallhofer et al., 2011, p. 378).

In non-Western societies, the relationship between the national state and the audit profession has mainly been investigated from (post)colonial and formation contexts. However, in this section, I only intend to identify studies that examined accountancy regulations and the state-profession relationship in non-Western jurisdictions and outside the colonisation focus. This type of research interest is relatively small.

In explaining the state-profession relationship, Dyball and Valcarcel (1999), for example, investigated audit regulations in the Philippines. They argue that although the Philippine regulatory framework looks like a corporatist system, it

is significantly affected by familial ties. Such an arrangement made both the law and the family into competing authorities there.

Dyball and Valcarcel examined two audit failures (Engineering Equipment Inc. and Victorias Milling Company, totaling US\$150 million) of the largest audit firm in the Philippines, ABC & Co. However, as ABC & Co. alumni (family) head many large corporations, government agencies (including ministries), as well as the accounting association which it dominates, the ABC network in return (regulators and the accounting body) protects the firm from any financial threats for their misconduct. Dyball and Valcarcel theorised that, in the Philippines, ABC & Co. (audit firm) familial authority exceeds state legal authority.

In Nigeria, Uche (2002) investigated the development of the accounting profession and found that Nigerian members of the UK ACCA formed a local branch of that organisation aiming to combine all Nigerian accountants with different UK qualifications under one association. However, with the formation of a local accountancy association and later setting qualification requirements, local members who did not meet Western requirements formed a counter association and started legal disputes.

When a new government took power in Nigeria, the counter body, due to a social relationship with the new government, relaunched a campaign to revoke the monopoly of the UK ACCA educated accountancy association. Each body employed different strategies to achieve their interests. However, the counter body reformatted itself to a broader association (ANAN). After a long series of conflicts between the two professional bodies, the Nigerian president signed a decree that recognised ANAN as a rival association which revoked the monopoly of the ACCA-qualified accounting association.

In Brunei, Yapa (1999) argues that although the Brunei accountancy system gives the impression that the profession is well-developed, the situation is anything but. The state (royal family) is the dominant user and regulator of accountancy profession services. The majority of the large accounting firm businesses are related to the royal family's private businesses.

The accountancy body does exist but has minimal power in regulating the profession for a number of reasons. First, practitioners are not required by law to be members of the Brunei accounting body. Second, the Big 5 (at that time, now Big 4) are not members of the accountancy body. Third, the majority of members in the accountancy body are non-Bruneians which makes it difficult for them to build relations with the royal family and state authorities. Nonetheless, a number of reasons are also behind the difficulties in developing the accountancy body: lack of resources, lack of licensing accountants, and lack of any type of self-regulation.

In another study, Yapa (2006) examined the state-profession dynamics in Sri Lanka. He argues that the Sri Lankan chartered accountants association implemented strict measures for membership which implicated its national objective for promoting the audit profession. This, despite changes in government, continued to empower only a small number of its members to monopolise the audit market. The high examination failure rate and a refusal to exempt university graduates diverted Sri Lankan actors with British qualifications (ACCA and CIMA) to participate in other sectors: commerce and government agencies. This contributed to the monopoly of Sri Lankan chartered accountants over the audit market. The power of the audit association in building barriers to membership is explained by Yapa as a result of strong political connections, friendship with an elite groups, lobbying, and lack of government concern.

In China, Yee (2012) analysed the role of the Chinese state in the professionalisation of public accounting. In 1988, as part of an economic reform, the Chinese accounting association (CICPA) was established and supervised by the government. The first honorary chairman was the Minister of Finance. As public accountants are perceived by the state to have an important function in monitoring state-owned enterprises, the association steered public accountants to the state economic agenda. Yee argues that the state-profession partnership to control public accountants was built in line with Chinese political and ideological perceptions.

Yee (2012) found that due to an increased need of the accountancy function, the Chinese state established a second accountancy body (CACPA). However, significant differences in membership entry standards and the overlapping functions of the associations resulted in intense competition and confusion. To solve the intra-professional conflicts and preserve the Chinese character of the profession, Yee argues, the state interfered by merging the two associations.

Within the Chinese context, Spence et al. (2019) employed Bourdieu state theorisation to investigate the relationship between the Chinese state and the audit profession. To justify the importance of their research, Spence et al., correctly argued for two points. First, prior studies on the state-profession relationship are dominated by Western contexts where neoliberal systems guide such arrangements. Second, the majority of studies on state-profession dynamics focus on the material power of the state (neo-Weberian). Whereas Bourdieu perceived the power of the state as an interplay between the physical (material) and the misrecognised non-physical (symbolic) powers (for Bourdieu's ideas on the state, see Section 4.3).

Spence et al. (2019) argue that in China, the state, not the market, shapes the audit profession/field. The Chinese state supported the field of Chinese audit firms (through awards, subsidies, and facilitating/encouraging mergers) to increase in size and to compete with international audit firms. The state implemented a number of strategies to facilitate/promote/encourage the competitive position of local firms. For example, designing a ranking system and incorporating large local firms in the audit of state-owned entities to protect national security (economy and information). It even encouraged local firms to expand advisory services. The government also uses its influence in the accountancy association to influence the decisions taken.

With the enlargement of the Chinese firms, the ability of international Big 4 firms to accumulate social capital with the government became more difficult. Spence et al. (2019) argued that the state-implemented strategies (re)shaped the audit profession field which at the same time enforced the state's material



power as well as constructing the cognitive structure of local auditors on the symbolic power of the Chinese state.

In the Arab world, Mihret et al. (2017) analysed the corporatist system of the Saudi accounting body (Saudi Organisation for Certified Public Accountants, SOCPA) from 1979 to 1992. They argued for three findings. First, SOCPA was able to gain the authority to regulate accountancy because it was able to align its agenda with the national public policy of indigenising the profession and safeguarding religious values. Second, SOCPA developed accounting standards by combining US accounting standards with religious laws. Third, SOCPA included incumbent auditors under its umbrella and trained them as a long-term strategy which later resulted in restricted involvement of expatriate labour in the Saudi audit profession.

In a recent study, Mihret et al. (2019) employed neo-Gramscian analysis to examine changes to the Iranian state-accountancy profession relationship in parallel with changes to Iranian state ideology. In the pre-revolution era, Iran was driven by pro-Western ideologies. Mihret et al. argue that this did not mean that Iran followed Western regulatory practices (often of the corporatist system). In that period, the accountancy profession was mobilised under a state monitoring system.

With the Iranian ideological shift which happened in the 1970s, the new anti-Western regime prohibited the operations of international firms and included accountancy within the state apparatus of an Islamist nationalist-driven audit function. However, according to Mihret et al., post Iraq-Iran war, the Iranians adopted some transnational norms to manage its economy. This ideological change contributed in the reconstitution of the accountancy regulatory setting which gave the accountancy profession some authority of operations to accommodate transnational norms, but under state control.

In Kuwait, the case that I aim to investigate, I could not find any (non-positivist) contemporary studies on the state-audit profession relationship. However, I found a historical study on the formation of the Kuwaiti accountancy body. Altaher et al. (2014) examined the role of the state in the creation of an

accountancy body in Kuwait in 1973, arguing that with the involvement of Anglo-American corporations in Kuwait oil activities, the audit function became a necessity. Historically, Altaher et al. (2014, p. 263) argued: “The lack of indigenous accountants in Kuwait led to a high reliance on foreign accountants.”

With the rising number of indigenous accounting graduates, the Kuwaiti state facilitated and funded the creation of the accountancy body which was initiated by Kuwaiti accountants to counter the domination of non-Kuwaitis on the accountancy market. The accountancy association in Kuwait was formed based on the concept of an important sociocultural institution, *Dewaniya*<sup>12</sup>.

As I illustrate in this section, the majority of non-Western studies on the state-profession relationship focused on the (historical) formation of the accountancy profession in various countries with different focuses. The findings mirror countries’ social systems and culture--all emphasise the role of the state in steering accountancy professionalism, but without giving much focus on the states’ modes of regulating auditor practices. The next section will explore prior research on the influence of external (Western-driven-global) forces on the state-profession relationship in the non-north-Western states.

### **2.3.1. Globalisation and audit in the non-north-Western context**

In Greece, Caramanis (2002) stressed the power of the state in influencing and (re)shaping social order and argued that activities to liberate the Greek economy had underpinning survival logics. Economic liberation was pursued to help Greece become fully integrated with the EU and to protect itself from Turkish threats. Caramanis argues that part of such a liberation agenda created inter-professional disputes between international accounting firms and indigenous audit firms that monopolised statutory audit. International

---

<sup>12</sup> “Dewaniya traditionally takes place in a room in a house with external access; it is restricted to males, and bears the name of the house owner ... in many cases it acted as a forum for groups with special interests, and as the starting point of social change.” (Altaher et al., 2014, p. 269). “The general atmosphere of the Dewaniya is similar to that of social clubs, cultural and literary forums and political salons” (Kuwait Government Online, 2013; cited in Altaher et al., 2014, p. 269).

accounting firms lobbied the US to interfere and support their strategic interests to overcome the monopoly of local firms.

In post-Soviet Russia, Samsonova (2009) found that development of audit regulations evolved through three phases and was strongly influenced by the regulatory practices of European countries, especially those that directly interfered in regulating Russian audit practices. With the opening up of Russia's economy, economic players (including the EU as donors to Russia) influenced Russia to implement market-driven restructuring and accept their approaches to audit policymaking.

Within the same Russian context, Mennicken (2008) examined the implementation of international standards on auditing (ISA). Mennicken argued that the implementation of ISA for Russia was an important factor for its international recognition and legitimacy. She also found that as Western firms are more linked to multinational corporations, the implementation of ISA benefited international firms which created a hierarchical difference between international and indigenous firms. Consequently, indigenous audit firms perceived modernity as joining an international audit brand name (network).

In another study, Mennicken (2010) examined the relationship between the expanded audit market and the mode of governance in the context of neoliberalism in post-Soviet Russia. She found that the perception of good audit is often linked to firm size and corporate influence. Also, with low government requirements to be an auditor, international firms distinguish themselves from indigenous firms on the basis of organisation structure, audit manuals, archiving system, quality control, and audit firm ranking. Mennicken theorised that in post-Soviet Russia, audit expansion was not an outcome of neoliberalisation, but because international audit firms guided some corporations to succeed, their marketing strategies, and the expansion of audit ideas to social life.

In an investigation similar to that of the Mennicken (2008) study explained above, Ezzamel and Xiao (2015) argue that, for China to be part of the globalised world, accounting standards were customised to satisfy

international pressure and at the same time preserve local cultural identity. Ezzamel and Xiao analysed the dynamics of the process of producing accounting regulations for the foreign-invested firm. They explained the state politics that produced accounting regulations similar to IFRS/ISA but with Chinese characteristics maintained as a boundary to limit full international involvement and at the same time absorb public resistance to following Western systems.

In attempts to neoliberalise the Sri Lankan economy, Yapa et al. (2017) investigated the inter-professional conflicts surrounding the conditions of IOs to adopting international standards of auditing. Yapa et al. found that such reform facilitated Big 4 domination of the audit market because of their knowledge of these standards and global reputation. Nonetheless, the Sri Lankan state, according to Yapa et al., did not give much consideration to local firms and supported international accounting firms to achieve its economic reform agenda.

Studies on globalisation and non-north-Western states suggest that state submission to Western driven reform varies depending on a state's power on the global scale. One of the salient reasons for reform is to obtain international recognition (legitimacy). However, as the culture and history of non-north-West countries are different, variation in the application of global rules also exists between these states. In all cases, economic globalisation empowered international audit firms over indigenous local audit firms.

Within the global context, China for example, is found to be on a slower path to transforming its economy. That is because its global economic power mingled with its non-democratic regime allow it to "relatively" resist pressure for rapid transformation. In Sri Lanka, the state interests in neoliberalising the economy, in association with carelessness in the audit function of local firms, empowered the Big 4 to dominate the audit market. Research also provided evidence, in Russia for example, of how north-Western states interfere in societies' economic transformation to advance their interests, either indirectly (through supporting/guiding local governments) or directly (through the EU or

IOs). That is, to extend the advancement of capital practice, multinational corporations, and international audit firms of the north-West to the territories of the non-north West.

Before I move to identify studies that examined the globalisation of American audit regulatory arrangements, the following third section of this chapter investigates sociology studies of the accountancy profession.

## **2.4. Sociology literature on the audit profession**

This section aims to explain the scholarly debate concerning how the audit field operates in different nation-states. The purpose of exploring this literature is that it focuses on how audit firms accumulate and maintain their power at the national level. Examination of a professionalisation project might help to understand the underlying logic (arrangements and structure) of audit firms that guides their relationship with the state. This type of study reminds us that “individuals” and power relations that underpin human practices matter.

Additionally, as I am adopting a Bourdieusian perspective in this thesis, understanding the logic of Bourdieusian studies in audit, the state, and their interconnection is valuable. However, it is worth noting that in the accounting domain, the sociology of the audit profession literature that employs Pierre Bourdieu’s practice theory often focuses on one field without much consideration of the intersection of audit with other fields. That said, except for the work of Spence et al. (2019) that I covered in an Section 2.3, this particular literature widely neglects the state and its power to influence the dynamics of the audit field. In fact, the state is an underutilised theme in the accounting literature, especially in north-Western corporatist focused research.

The Bourdieusian literature in the audit field is relatively small, interview sourced, with many comparative studies, mostly Western-based. It does not explicitly recognise global norms as influential forces that affect audit field dynamics. That said, within this small literature, research on non-Western context is even smaller as noted by Spence et al. (2016): “it should also be noted that relatively little research has been done on PSFs [Professional

Services Firms] and professions in emerging markets” (p. 4). Similarly, as Belal et al. (2017) discuss, “There has therefore been only very limited work looking at the market for professional services in emerging economies” (p. 148). Now I move to navigate this literature.

### **2.4.1. Locating power in the site of audit firms**

In the UK audit field, Stringfellow et al. (2015) investigated the modes of domination of the Big 4. They performed interviews with various accounting firms and regulators and found that as the Big 4 audit banks, banks in return give more preference to clients who are audited by the Big 4. Also, an audit client, when expanding and requiring finance, often moves to one of the Big 4 to satisfy bank preferences; this logic constituted a barrier to non-Big 4 growth. This type of oligopoly and domination is maintained by the Big 4 through their involvement and influence on the accountancy bodies. These bodies pressure regulators for further liability concessions on the logic of avoiding the demolition of one of the Big 4 which would result in further concentration in the audit field.

The findings of Stringfellow et al. (2015) are similar to those of Samsonova-Taddei and Humphrey (2015) concerning the Big 4’s pressure for concessions at the EU level, though they do not refer to each other. Interestingly, however, Stringfellow et al. mistakenly applied Bourdieu’s notions on symbolic violence in the audit field, and argue that:

We found that the exercise of symbolic violence in the field led to smaller firms internalising a sense of victimisation, evaluating themselves against the practices of the Big Four, and emulating their practices in processes of mimetic isomorphism. (p. 95)

Arguably, Bourdieu’s symbolic violence is a more “socially” profound concept than implications of competition for economic accumulation (see Section 4.2.3.5). Perhaps, the marginalisation and reaction of small firms is an act of violence (but not what Bourdieu theorised as symbolic violence) by the Big 4 and their large clients to maintain their dominant position.

In comparative studies, Spence and Carter (2014) investigated how partners and senior auditors perceive professionalism in the Big 4 in Canada, the UK, Ireland, and Austria, but the majority of their 31 interviews are in Canada and the UK. They argue that three common thematic logics were found. First, social skills to generate trust are crucial and contribute to the firm income. Second, no discourse was found to enhance technical abilities, protect public interests, and promote ethics or independence, but instead to focus on mitigating firm risk while bringing in new work.

Finally, concerning the management of risk, they found that risk logics vary at different hierarchical levels. Because risk management is perceived within firms as a technical function, assessing risk became a responsibility of directors, a level below partnership. These technical directors give authorisation to partners to sign. As an implication, partners give more weight to commercial activities while directors focus on the technical and risk logics. Spence and Carter argued that, as commercial logic lies in the highest level within the Big 4 hierarchy, this led serving the public interest (through progress on ethics and independence) to be of secondary importance to international audit firms.

In another study, Carter and Spence (2014), examined how to become a partner in the Big 4, possibly with the same data set from their Spence and Carter (2014) study. They argue that relationship to social elites (e.g., ministers and businesspeople) is vital. Also, partners disavow technicality and focus on the satisfaction of their client. Partners are expected to have high linguistic capabilities and charitable activities to build up a social network to grow the firm income, unlike the old abandoned organisational structure, where dedicated partners were responsible for commercial activities. They criticised the contemporary unified partner model which focuses on generating revenues for their firm and disseminating commercial logic of the Big 4 top levels, whereas risk and technicality are delegated to the lower level.

Spence et al. (2015) undertook a comparative study between the UK, Canada, France, and Spain to investigate the commonalities between countries for promotion to partnership in the Big 4. The findings suggest the following: first,

a huge emphasis on the commercial aspects for partnership promotion consideration. Second, as a global firm aims to standardise partner profiles, local firms have a big influence on the global appraisal system for partner promotion. However, for partners, the process for growing their profile and firm, and to provide their expert services, is often through a social network with the business community. France is different in the sense that a social network is inherited with many partners' prestige university education and graduate network.

In a comparative study between the UK, Canada, France, Spain, and Bangladesh, Spence et al. (2016) investigated the habits of the Big 4 partners. They found that capital/money dominated the logic of Western partners but not in the non-Western nation, Bangladesh, where the focus was more on technical expertise. While social networks were found to be vital, the accumulation of this resource varies between countries. In the UK, Canada, and Spain, the accumulation of networks is done through performance. Whereas in France, social network is more inherited and collected mainly through alumni of prestigious French universities. In Bangladesh, social relations are collected through social origins, dynasties, and nepotism.

Furthermore, in Bangladesh, British professional certification is perceived as a more prestigious qualification compared to the local one, as well as a designation for distinction. They concluded that though there is some variation within Western countries, Bangladesh is radically different in how they perceived professionalism. Interestingly, in this study, four interviews with international audit firms were conducted within the United Arab Emirates, one of Kuwait's neighbouring countries that shares many cultural aspects, but these interviews were not considered in the analysis and discussion.

Belal et al. (2017) tried to explore the internationalisation of the Big 4 field in Bangladesh. They found social networks rely on familial and political links. The Big 4 operate through local representation(s) that sign audit reports in their name(s). However, Belal et al. interviewed the majority of partners of the Big 4 in Bangladesh. Only KPMG is a member firm (integrated with the global firm



network and sharing profits and losses, following the network methodology, access to resources, and subject to inspection by the global office) and the remaining Big 4 are (long-established) correspondence firms (not integrated; arrangement varies between firms).

The accountancy body in Bangladesh restricted non-audit services on firms that were not full members. And because of that, many of these services are provided by regional firms (e.g., from India or Pakistan). And, in some cases, if the non-audit contract was large, foreign firms set up an office in Bangladesh (Belal et al., 2017, pp. 155-6). Belal et al. also found three issues that affect the mechanism in the audit field that pressure against changing the regulatory audit model in Bangladesh. First, insufficient levels of technical professionalism. Second, low audit fees are a barrier for firms to change their arrangement from correspondence firms to full member. This is mainly because audit is seen as a mere legal requirement. Third, nepotism in the appointment, promotion, and retirement of partners, as many of the audit firms are run by families. In conclusion, Belal et al. found a strong sense of professionalism within audit firms.

To understand the power of the Big 4 in different national contexts, Spence et al. (2017) interviewed many of the Big 4 in Japan and China and suggest the following. In Japan, part of firms' operational logic is outside Bourdieu's practice structure as it is attached to moral issues (repayment of kindness and duty/obligation), not only economic goals. In China, it is more commercial based. In Japan, social relationships target colleagues and are part of the broader patronage (parent-part/child-part, master/apprentice) systems, while in China, social networks privilege clients and government. Nonetheless, technical expertise weighed more in the Japanese context compared to China.

Spence et al. (2017) argue that professional services firms in Japan were able to maintain their Japanese identities because the Big 4 existed through a merger of established Japanese audit firms. Also, the small market for non-audit services. In China, by contrast, the Big 4 were established and developed through Western partners located in Hong Kong, especially US partners. This

led the Chinese Big 4 field to construct a logic that embraces Western norms and practices.

This particular literature examined how the accountancy profession (audit firms), especially the Big 4, practice (accumulate power) at the national level with variation in communal norms. It often focuses on one field without giving much consideration to the interaction between fields, the role/power of nation-states, or global forces in (re)shaping national professionalisation projects (if any) (Spence et al. (2019) and Belal et al. (2017) are exceptions).

In the Western audit market as well as in China, commercialisation saturates the logic of senior levels of the Big 4 (Carter and Spence, 2014; Spence et al., 2017; Spence and Carter, 2014). In Bangladesh, less emphasis on commercialisation is found (Belal et al., 2017; Spence et al., 2016). Nonetheless, in all examined markets, this literature suggests that social capital is crucial, but the way social capital is accumulated varies between countries. The logic of social capital accumulation in Japan was found to be outside Bourdieusian theorisation as it is located in moral values rather than economic conversion.

Now I move to the fourth section of this chapter, the US-driven audit regulatory norms in the accounting literature.

## **2.5. The globalisation of US audit arrangements**

With the US's indirect interference in reforming East Asia economies through supranational organisations (Arnold, 2012; Halliday and Carruthers, 2009), the US witnessed major financial scandals by large American corporations with their external auditors, Arthur Andersen. This crisis resulted in the enactment of the US SOX in 2002 to reform the corporatist regulatory practices of the US capital market. However, SOX became the benchmark for the activities of both supranational organisations and transnational agencies.

Concerning audit, as I illustrated in Chapter 1, SOX aimed to change the mode of the corporatist self-regulatory system by increasing state oversight of auditor practices in the capital market through the establishment of an “independent”

oversight body, the PCAOB. SOX also aimed, as part of its mandatory corporate governance system, to promote an independent relationship between auditors and their clients through two striking mandatory technologies, rotation and prohibition of non-audit (advisory) services. However, regulatory demands to implement rotation as a perceived solution to the audit independence dilemma began as early as the 1930s (Hoyle, 1978)<sup>13</sup>, and constraining audit firms abilities to provide advisory services since the 1970's (Zeff, 2003)<sup>14</sup>; but these technologies became globally recognised only after SOX implementation.

The US reform became one of the global benchmarks and best practices for reforming Northern and Southern capital market regulatory practices despite the non-corporatist setting of many nation-state(s). For example, a few months after the enactment of SOX, IOSCO issued its first *Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence* (IOSCO, 2002b) and *Principles for Auditor Oversight* (IOSCO, 2002a) for its members, which directly followed the logic of SOX.

The IMF and the World Bank ROSC collaboration followed SOX for capital market/audit reform either directly or through promoting the work of IOs that embrace SOX (e.g., OECD) (The World Bank, n.d.). Similarly, both the IFAC code of ethics as well as the recent EU audit legislation (effective 2016) followed SOX ideas. For example, the IFAC and EU followed the categorisation of SOX concerning prohibited advisory services! With the support of various transnational players, SOX ideas became “best practices” for capital market audit/corporate governance regulations.

Regardless of the global spread of SOX audit regulatory logic (I will return to this theme later in this chapter), the following section provides scholarly

---

<sup>13</sup> Rotation of firms was raised by the US Securities and Exchange Commission in the McKesson and Robbins fraud case in the US in 1939.

<sup>14</sup> The expansion of audit firms' advisory services in the 1970s was concurrent with the economic (neoliberal) transformation of many north-Western states.

critiques on some aspects within SOX as well as their application in other geographic territories.

### **2.5.1. Critiques of SOX-driven audit technologies**

Audit independence technologies are intensively investigated by positive (market-based) studies with conflicting findings on their usefulness. However, the majority of non-positivist studies do not examine the content of audit regulations to understand their effect (Samsonova-Taddei and Siddiqui, 2016, p. 184). That said, many of the prior critiques on the micro audit technologies of SOX solutions (rotation and prohibition of advisory services) are “diffused” and theorised as a “concept”, but I did not come across any study that examined the process/dynamic of their implementation at the national, regional, or international levels.

McMillan (2004), for example, argues that imposing technologies from outside the profession enclosure (e.g., rotation and prohibition on some consultancy); “merely dance around the key issue of the auditor–management relationship” (p. 949). McMillan emphasised enhancing auditor moralities within the profession because if audit firms were able to override moral principles to their independent opinions, they would bend roles even if they were pushed to provide only audit services. Similarly, Windsor and Warming-Rasmussen (2009) and Sikka (2015) are of the view that enhancing regulatory audit practices in a neoliberal system is not enough to promote audit independence/quality, but structural changes to commercialisation are required.

Others argue that because of conflicts of interest between auditors and their clients, the accountancy profession only supports cosmetic changes to auditor independence/quality (Moore et al., 2006). Moore et al. criticised the US model of only promoting partner rotation and omitting the ability to provide tax services--one of the significant consultancy services provided by auditors--as well as the ability of PCAOB to exempt audit firms from the prohibition against non-audit services on a case-by-case basis (Moore et al., 2006). Arnold (2009, p. 807) argued for the same tax permission views. For Moore et al., not

changing structural settings (management hire and fire auditors, insufficiency of rotation in mitigating auditor interests, and regulatory ease with non-audit services) makes these technologies ineffective.

Fiolleau et al. (2013) investigated SOX-driven audit independence technologies (rotation of external auditors and board audit committee) by examining the process of audit request-for-proposal in Canada. They found that company management--not the board audit committee--still has a big role in appointing external auditors, despite the SOX-led Canadian corporate governance system requirements. Also, they argue that because competition in the audit market is high, it enhances management power over newly appointed auditors, negatively affecting auditor independence.

As the EU enacted similar logics to the US-SOX audit independence in 2014, Samsonova-Taddei and Siddiqui (2016) studied the content of the EU audit policy that targets the promotion of auditor ethics. They argue that these policies are of deontological (non-consequentialist) approaches to ethics which largely failed to promote audit moral constitutions, dispositions, values, and virtues.

Despite criticisms to SOX and SOX-driven global norms, we know little about why transnational agencies comply with SOX and pressure countries to do the same. Malsch and Gendron (2011, p. 471) for example, found that fear that US authorities would not recognise audit quality of the European block is one of the reasons to follow US regulatory practices. Halliday and Carruthers (2009) argue the reason is because international organisations are occupied by senior staff with an American background, and the financial support provided by the US to these organisations. Harvey (2003, 2005) theorise that international organisations are instruments for global US hegemony.

Concerning the global spread of SOX, a number of prior studies investigated the national dynamic of establishing a body responsible for taking over regulatory power from the audit profession, similar to the US PCAOB logic aiming to change the institutionalised corporatist system. This literature is emerging, relatively small, and follows a global standardisation perspective.

### **2.5.2.The internationalisation of SOX-inspired changes to nation-state corporatist arrangements**

A number of studies started to examine tensions within local regulatory systems following the US-SOX idea by establishing an independent body (similar to the US PCAOB) to promote state oversight in an inherited “corporatist” system. This particular literature investigated the dynamics in Canada, France, Greece, Ireland, and Russia. With differences in outcomes, the “effectiveness” of SOX-inspired regulatory change was mainly conditioned on countries’ historical and socio-political arrangements (Caramanis et al., 2015, p. 13). However, I believe this literature is methodologically inspired by the early seminal works on accounting regulations (e.g., Robson et al. (1994), Radcliffe et al. (1994), Cooper et al. (1996)), but the majority of this literature does not refer to these studies!

In Canada, the structural reform aimed to shift audit standards-setting from a self-regulated Canadian Institute of Chartered Accountants (dominated by the audit profession) to a newly created state body, the Canadian Public Accountability Board (CPAB). Malsch and Gendron (2011) argue that the structural reform aimed to preserve the reputation of the Canadian capital market and align Canadian regulatory practice with its neighbour, the US.

By employing a modified version of Luke power dimensions, Malsch and Gendron (2011) found resistance and allegiance between CPAB and large Canadian audit firms. As Canada witnessed no major issues to push for the establishment of CPAB, it wanted to signal its initiative but at the same time did not want to disrupt its regulatory system. Partners from the Big 4 occupied executive positions in the new regulator with no representation from government agencies which resulted in maintaining the status quo concerning the modernising of corporate audit (Malsch and Gendron, 2011).

To understand the Western trajectory of audit regulatory change, Malsch and Gendron (2011) went beyond the Canadian context and also performed some investigations in Europe but purposely did not disclose details of these

interviews or the names of the European countries (Malsch and Gendron, 2011, p. 459 [2]). They found in Europe, similar to Canada, local regulators promote changes to regulatory practices to be in conformity with the global norms as well to obtain the acceptance of their regulatory practices by other powerful Western countries (p. 468). Also:

[O]ur analysis also indicates that the creation of regulatory organizations in the EU is more the outcome of fear than of a genuine willingness to institute a mechanism aimed at protecting the public interest. Threats that US authorities would not recognize the quality of audits carried out in Europe reportedly played a key role in the decision to institute independent regulatory offices in EU countries (Malsch and Gendron, 2011, p. 471).

They found commonalities in discourse and resistance to state arm's length regulations between Canada and the EU. With regard to similarities in discourse, for example, the same justification for a low level of transparency with regard to inspection reports was used. Concerning commonalities of resistance, to escape sanctioning decisions, audit firm strategies include criticising inspector competence and threats of loss/collapse of one of the large audit firms. The public interest, according to Malsch and Gendron, is marginalised in these power dynamics.

In Ireland, Canning and O'Dwyer (2013) argue that the incitement for the regulatory shift of oversight was malpractice in the accountancy profession. Unlike most studies within this particular literature, Canning and O'Dwyer found that most of the Irish audit field strategies to influence/subvert the design of the new regulator failed. By analysing archival data and using the concept of regulatory space as a theoretical framing, they investigated the renegotiation and reshaping (from 1999 to 2007) of the new Irish accounting and auditing oversight body.

Canning and O'Dwyer (2013) found that the Irish accountancy profession was involved in defiance and manipulation (exploiting legislative drafts) and adopted strategies (dominating the positions in the new body, controlling information about their members, claiming lack of competence of the new regulator, and engaging lawyers to amend the legislation draft) aiming to

constrain the design of the new body, as well as challenging the interpretation of its mandate. Due to legislative and legal support, the new regulator's mandate was not changed. Furthermore, they found that regulators and audit profession resistance strategies change over time.

In France, Hazgui and Gendron (2015) investigated the localisation of the global trajectory for creating an "independent" audit oversight regulatory body in 2003. They examined documents from 2003 to 2012 and performed semi-structured interviews with regulators and auditors, drawing on the regulatory space concept. With their longitudinal analysis, they found a hybrid regulatory arrangement was the result of disputes.

Concerning the French shift of regulatory power from the profession to the state, various forms of resistance existed and changed over time. In the first phase (2003-2007), the profession prevented and complicated the work of the new regulator to protect the self-regulatory system. This was done by exploiting technical knowledge of the new regulator, continued self-regulatory oversight practices (ignoring the change, issuing self-regulatory inspection reports, and claims that the new regulator will follow the same model), developing models to delay application of the new system, withholding information from the new regulator, and large firms submitting two legal cases against the new regulator. Then the profession started to support the creation of the new regulator but resisted changing the self-regulatory mechanism on the ground that France had not witnessed significant fraud cases.

In phase two (2008-2010), to mitigate media coverage concerning the legal cases and some international firms threatening to stop auditing, the new regulator proposed to establish joint working groups with the profession. Nonetheless, due to pressure from the US PCAOB inspecting US companies in France as well as pressure from European commissions to advance audit systems, France's new regulator was pushed to establish its mandated roles with the help of the profession. The second phase witnessed collaboration between the new regulator and the profession. Later, the professional association started to question the competence of the new regulator and



demanded the association of the accountancy body be represented on the board.

Finally, in phase three (from 2011 on), the accountancy body became a member of the new regulator's standard development and inspection committees. Also, again, the close proximity between the new regulator and the profession started to be questioned.

Caramanis et al. (2015) investigated the creation of a new regulatory system (oversight board) in Greece. They argue that Greece is different than other European countries on two grounds: it has a clientelistic political system and the global financial crises of 2008 had major implications, unlike anywhere else in Europe. Nonetheless, as Greece is subject to European policies, and with the rise of financial scandals that involved highly placed politicians, an independent oversight body was perceived to be one of the solutions. Caramanis et al. analysed archival documents, performed semi-structured interviews, and followed O'Donnell's conceptualisation of delegative democracies.

Caramanis et al. (2015) argue that due to the Greek socio-political system, the created (Anglo-American model) oversight body was prevented from improving the quality of financial reporting from its inception. The new regulatory body faced many issues in performing an audit quality inspection program (lack of legal authority to perform such function, limited human resources with junior-level expertise). Additionally, although the new oversight board became independent from the profession, the new body continued to be dependent on the "clientelistic" government, arguing that the control of the Ministry of Economy on this body has resulted in the government (through the Minister of Economy) appointing their political allies and friends, including the appointment of audit quality inspectors. Caramanis et al. argued for an integration mismatch between global institutional design and the national system.

Interestingly, there is a significant contradiction between how Malsch and Gendron (2011) and Caramanis et al. (2015) viewed regulatory

“independence”. On the one hand, Malsch and Gendron criticised the government’s lack of involvement in the operation of the new oversight body because the newly created body is dominated by representatives from the profession. On the other hand, Caramanis et al. argue that the Greek oversight body lacks independence because it is dominated by the (clientelist) government.

Canning and O’Dwyer (2016) contradict Caramanis et al. (2015). This difference in findings may be mainly due to each country’s socio-political particularities. Canning and O’Dwyer (2016) investigate the struggle for power and legitimacy by directors and senior executives operating the newly established oversight institution in Ireland. They argue that in Ireland, a review group (of elite actors in industry, audit, firms, politics, academia ... etc.) was established to assess the system of the accountancy profession. This group recommended that there should be some external oversight by the state.

A radical proposal, according to Canning and O’Dwyer (2016), was issued to eliminate self-regulatory logic which created disputes between the newly established regulator and part of the assessment group. Nonetheless, Canning and O’Dwyer found that the chairman of the audit review group played an important role in pushing the trajectory for audit regulatory reform. The chairman stressed (as hard advocacy) the board members (especially representatives of the audit profession) to reject any type of self-interest/resistance to advancing audit regulations (p. 9). Also, forming alliances with the media and politicians through public announcements (as soft advocacy) helped accountancy thrive in Ireland. They add that the appointment of a chief executive with previous public interest functions to manage the new accountancy regulator has also helped to overcome the profession’s self-interest/resistance.

In a special issue on state power in *Organization Studies* journal, Alon et al. (2019) argued that “the broader issues of governmental transformation and the (re)building of governmental capacity and authority have largely remained unexplored” (p. 1221). Accordingly, they examined the regulatory shift of audit

oversight in Russia. Interestingly, within this particular literature, this study is the only one that explored local audit laws. However, they argued that the international regulatory change that pressed to enhance audit quality by changing self-regulation via the peer-review mechanism to state inspection, enabled the Russian government, unlike in the Western context, to include audit oversight under government institutions (the Ministry of Finance) to regulate and oversee audit firms.

In this study, Alon et al. mobilised “legislative layering” as a theoretical concept; that is, different layers of regulations. For example, maintaining a register with minimum conditions, peer-review continued, and inspection for control review was conducted by the Ministry of Finance. Besides its main argument--that regulatory reform in Russia, unlike in many Western regulatory systems, empowered the government over the accountancy profession--does this paper offer us nothing about the micro-dynamic of change in Russia?

Prior studies investigated the dynamic of establishing a state body responsible for assuming regulatory power from the audit profession, similar to the US PCAOB logics. However, we do not know what happens in non-Western or non-corporatist systems, or in a combination of these two settings. Prior studies on SOX-driven institutional change adopted a standardisation perspective without elaborating on “why” nation-states change their local arrangements to follow the global standardisation trajectory (Malsch and Gendron (2011) is an exception), or what the international instruments are that lead (a) nation-state(s) to pressure countries to pursue the standardisation path (e.g., international best practice). Additionally, in the regulatory audit domain, creating an independent body is one of the global norms. Nonetheless, other norms probably follow a similar logic, such as regulations to rotate auditors and constrain advisory services offered by audit firms. These global micro-norms, although they are extensively examined by positivist studies, are widely neglected in the “critical” accounting literature. Now I move to discuss the last part of this chapter, “international best practices”.

## **2.6. International best practices: The unobserved global norm**

Wendy Brown in her book, *Undoing the Demos: Neoliberalism's Stealth Revolution*, explained so-called “international best practices” as one of the contemporary methods to govern societal political rationality and secure political meanings for intensive economic activities. She puts it this way:

[B]est practices stand for value-free technical knowledge validated by experience and consensus, where the alternative is not only tradition or mandate, but partisanship and contestation over purposes, values, and ends (Brown, 2015, p. 139).

While best practices may be “set forth by an authority, such as governing body or management”, they embody precisely the consensus-developed directives with which neoliberal governance more generally aims to replace law, policing, punishment, and top-down directives. At the same time, best practices may incite or instigate certain legal reforms that would permit closer comportment between the law and business interests, and they also may entail or generate certain legal and ethical workarounds. Thus, while best practices often operates as replacements for law and regulation (not to mention for religion, tradition, or other forms of deliberation), while they are neoliberalism’s alternative to the state that it officially abjures, proof that we can be both ethical and efficient without external interference, they can also be a Trojan horse through which law and the political order it secures may be transformed for and by neoliberal reason (Ibid., p. 141).

For Brown, international best practices could be understood on two related fronts. First, an ideological pressure to reconstruct rationalities to endorse neoliberal ideas. Second, a form of measuring local practices; that is, state practices that do not follow “international best” are considered not best, or outdated. I call these two theorisation fronts related because ideology and practice are in a reciprocal relationship: ideology impacts practice and practice impacts ideology. Following Brown’s theorisation, if international best practices do exist in the audit domains, and they obviously do, they should influence accounting regulations as well as the relationship between states and the accountancy profession and the way social order is maintained.

Despite the global (intensive) diffusion of the concept and the process of international best practices, they have no (or limited) appearance in non-

positivist accounting studies. In fact, besides the work of Mehrpouya and Salles-Djelic (2019) on transforming transparency to self-discipline and Mehrpouya and Samiolo (2016) on ranking of pharmaceutical companies, we do not know much about the global (neoliberal) norms, and how they confront the way order is maintained between the state and the accountancy profession.

Prior studies often link standardisation to financialisation and international best practices to neoliberalisation. I understand that financialisation, neoliberalisation, standardisation, and international best practices are different concepts. However, I consider, the “process” of standardisation and international best practices, although both aim to achieve similar ends (social change on the terms of those steering these norms to provide an environment for capital), they share similarities but also differences. With regard to similarities, on the one hand, international best practices are one of the methods to influence changing national practice/regulations to achieve international standardised practices. On the other hand, standardising practices propagated to change national practices by following international best practices.

Perhaps the typology of standardisation is used for Western states, while international best practices is applied to non-Western states. Or the opposite, standardisation is used as a justification for coercive involvement in the internal affairs of national-states and international best practices is a form of soft influence. Again, we do not know much about these problems.

The differences between standardisation and international best practices are mainly related to the perspective they offer for (a) research(er). Looking at regulatory change from a standardisation lens is not similar to examining a problem from an international best practices perspective. Probably, from a critical methodology, the former has less effect on power in comparison to the latter. On the contrary, an international best practice perspective offers a deeper investigation into power/hegemonic activities as it offers an additional view in comparison to standardisation, which is practice measurement.

As I identified in the earlier section, in changing local corporatist arrangements to the reformed American/SOX system, some studies did consider the process of some of these norms on the state-profession relationship, not from a neoliberal/practice measurement perspective, but from a standardisation view. That being said, as I mentioned earlier, to the best of my knowledge, there are no studies in the accountancy literature that critically investigate international best practices or use international best practices as a perspective to navigate social problem(s). I did find international best practices explored in the public administration literature, as well as indirect discussion on “global norms” in the sociology literature.

### **2.6.1. International best practice in the public administration literature**

Fougner (2008) described the process of “best practice” as a “bottom-up approach” or “top-down approach”. The former occurs when “powerful” countries develop their own benchmarks and then find common patterns for international generalisation. With the latter, non-powerful countries have no say in the formulation of these practices, so top-down means imposing these practices by external forces that aim to govern nations via neoliberal practices.

Within the global norms production, Davis et al. (2012) argue that despite the promotion of some practices by some IOs, the making of these regulations is not always done by the same IOs:

In many cases promulgators attach their names to indicators whose production involves contributions from a number of other actors. For example, reports and rankings for the Programme of International Student Assessment (PISA) are promulgated by the OECD, but are actually prepared and produced by an Australian consultancy under a contract with the OECD (p. 13).

To understand modern practices, Halliday and Carruthers (2009) stress the importance of navigating the roots of whose localism is globalised. That is, to understand the socio-political roots embedded in the construction of internationally diffused practices.

Some studies in the public policy and administration domain examined the way some African countries are governed through “international best practices”. These studies concur that pressuring African countries to *imitate/mimic* Western practices leads to failure with no proper progress for southern non-Western societies (Andrews, 2010; Pritchett et al., 2013). This creates more problems for countries than solutions (Andrews, 2008; Pritchett and Woolcock, 2004), and the isomorphic mimicry is a significant threat to democracy as countries have no voice with regard to the implementation of international best practices (Pritchett and Woolcock, 2004).

Pritchett et al. (2013) argue that in Africa, countries often fail to implement functional “international best practice” policies because each country has its own politics, social, and economic structures. They also added that countries merely imitate “best practices” to maintain legitimacy in the global order (Pritchett et al., 2013). Similarly, Andrews (2012) argues that to assess “fit or relevance” of “best practice” to developing countries, one should “Look at the degree of difference between the proposed adoption context and the context in which such practice emerged as ‘best’” (p. 137). He found differences between African countries on the relevance of applying these practices. Andrews argues that the implementation of “best practices” is more functional in African countries where their local practice is closer to the north-Western context, where “best practices” emerged.

Andrews (2010) argues that good government looks different in different countries. He criticised the “one-size-fits-all” type of global pressure and claimed that in many cases, implementing “international best practices” does not lead to more effective government. Andrews not only criticises the ineffectiveness of the global governance norm of international best practices, but also discusses pressuring southern countries with transparency practices! He contests the idea that north-Western countries are more transparent in their system than southern states. Andrews (2010) argues that in certain sectors, such as defence, northern countries are less transparent than the south.

The majority of this small literature uses quantitative analysis from data published by IOs (World Bank and OECD) for developing countries. These studies do not question the concept of “international best practice”, or as theorised by Brown (2015), consider this global norm as a hierarchal (power) relation between the north and the south to pressure changing indigenous practices with its embedded (neoliberal) rationality. They take “international best practice” as-is.

This literature is constrained with quantitative methodology, which limits explaining “how” implementation of “international best practice” takes place. Or “what” type of internal disputes are created by shifting local/traditional practices in Africa. Also, this literature criticises the global “best practice” governance model but does not discuss “why” the top-down system of international best practices is still in place despite many “empirically-proven” stories of failure. Now I move to explain the “spirit” of “international best practice” in sociological studies.

### **2.6.2. The spirit of global norms in sociological studies**

It is worth noting that the following two sociological studies could be argued to be outside international best practices domain. Halliday and Carruthers (2007, 2009) are more inclined to standardisation logic, and Espeland and Sauder (2007) studied ranking. However, although I did not find any sociological study that directly examined “international best practices”, I find Halliday and Carruthers work echoes the material aspects of the Brown (2015) explanation of “best practice” as a measurement. With regard to Espeland and Sauder, I believe their work on ranking offers potential answers to “why” questions concerning the diffusion of global norms despite the public administration studies that proved international best practices fail to help societies progress.

During the Asian financial crisis, Halliday and Carruthers (2007, 2009) examined the implementation of global standardisation of bankruptcy regulatory reform in Indonesia, South Korea, and China. They developed a theoretical framework to explain how countries, based on their distance from the culture of global norms producers, reacted to pressure to reform local



institutions and practices. I am using Halliday and Carruthers (2007, 2009) theorisation as part of this thesis' theoretical framework.

Halliday and Carruthers found that the level of pressure from IOs on nations varies between countries, as do the local dynamics for dealing with these pressures. In Indonesia, imposing standardised bankruptcy laws internalised the ethnic and political struggle between the Chinese who dominate in the economy and ethnic Indonesians who dominate in politics. Internal disputes between these two social groups, as explained by Halliday and Carruthers, were mainly due to an ideological contradiction (market forces vs. national identity), a mismatch between who makes the law and who implements it, and the exclusion of locals from the diagnosis of and prescription for local problems.

In South Korea, Halliday and Carruthers (2007, 2009) argued that pressure to change local institutions took a different trajectory. As South Korea's banking systems are more developed and more aligned to north-Western systems, local political tension was mainly between the Ministry of Finance and Economy (economists) and the Ministry of Justice (lawyers). Disputes were mostly due to their epistemological differences with regard to bankruptcy laws. The Chinese case was relatively different; it was able to resist recommendations for bulk reform due to the limited effects of the Asian financial crisis on China, and government ownership in many companies. Instead, China implemented partial changes aimed at limiting risk to its local system and culture.

Prior studies in both public administration and sociology helped us to understand that in many cases, the global trajectory of standardisation or through international best practices "failed" to help societies advance. We also know that the "direct" process of implementing these practices is often, depending on the financial situation of a country, driven by IOs, whether coercively or through proposals. Additionally, global-driven changes often create local disputes between social groups. In fact, one could perceive that as these pressures intensify conflicts, local groups work harder to protect their

interests; it may diffuse corruption to politics as protecting individual interests from the global reform pressure might be an indigenous norm.

If the “best practice” norm fails to advance societies, “why” is this system (a form of governance) still in place despite its adverse outcome? Although this inquiry could be interpreted with Brown’s (2015) theorisation of neoliberal rationality and global (neoliberal/norm) governance, I found Espeland and Sauder’s (2007) work on US law school ranking also useful to understand “best practices”.

Espeland and Sauder (2007) examined the impact of ranking on US law schools. They created a theoretical framework to understand social measures; Espeland and Sauder coined this framework as “reactivity”. Reactivity as a form of reflexivity is when “individuals alter their behavior in reaction to being evaluated, observed, or measured” (p. 6). They see ranking as a mechanism to control public institutions and provide access for consumers, not insiders. Ranking even penalises schools with different religious or social missions for not following the ranking’s “competitive” criteria.

Based on 136 interviews with law school representatives, they found self-fulfilling prophecy (defining a situation or belief, alter institutional expectation-embedded in measures) and commensuration (transforming cognition, alter/shape attention) cause people to react. Such ranking guided reaction stimulates changes in resources distribution, redefinition of work, and increased gaming strategies to increase institution ranking.

Gaming is found to be one implication of reactivity. For Espeland and Sauder, “Gaming is about managing appearances and involves efforts to improve ranking factors without improving the characteristics the factors are designed to measure” (p. 29). The consequences of gaming are threatening the legitimacy of the ranking, build a distrustful relationship between other institutions, and threaten profession moralities. For example, gaming practices in law schools aim for misrepresentation. This includes: employing graduates in any job, even illegal jobs; reclassifying admitted students from full-time to part-time to

improve class sizes; pressuring faculties to take spring holidays to improve certain ratios, and; recruiting graduates to improve employment numbers.

Gaming, according to many administrators, encourages them to be more distrustful of their peers, especially in their reporting of statistics like graduate placement that are difficult to verify ... organizational actors alter their behavior to try to influence their rank (p. 32).

If one sees “international best practice” from a measurement perspective, it follows similar logics of ranking, rating, transparency, and benchmarking. All these global norms aim to measure/alter how people rationalise and practice things. We also do not know what are the international “indirect” methods are that burden countries to follow the “international best practice” path. Additionally, as every country has different social arrangements and settings, why/how does implementing “best practices” audit regulations disturb the way social order is maintained? These are important questions but widely unexplored in non-mainstream studies. I will reflect on these important questions in my thesis.

## **2.7. Chapter conclusion**

The core aim of this chapter was to identify how prior studies theorised the relationship between the state and the audit profession without neglecting international forces that affect such relationships. I illustrated studies in the Western and non-Western as well as the northern and southern contexts. I also demonstrated how economic globalisation and global norms are perceived in the accounting literature and how that literature supposedly understands external influences on the relationship between the state and the audit profession in different societies.

This chapter was divided into five sections. The first section covered the state-audit profession relationship in north-Western countries, which happen to dominate the accounting literature. Part two focused on the state-profession relationship in the non-north Western context from a non-colonial perspective. Section three illustrated Bourdieusian studies on the sociology of the accountancy profession that focuses on the practice of elite audit firms. Part four examined the global spread of US norms to international audit practices.

The last section navigated one of the important “neglected” global norms, international best practices.

What can be noted from this broad state-profession literature is that on the one hand, the state is not given much consideration in studies that examined Western settings. Perhaps, in corporatist systems, the state is perceived to be neutral. On the other hand, in non-Western contexts, although the state is seen to be a crucial player in determining/shaping the accountancy profession’s abilities (Uche, 2002, p. 472; Chua et al., 2009), studies on state power lack in-depth investigation (Chua et al., 2019). Prior studies on the state-audit profession relationship in non-north Western settings often do not provide the regulatory explanation in which auditor practices take place.

Nonetheless, within the contexts of accountancy regulations, in non-north Western studies, state-audit profession relationship studies mainly considered the state from a neo-Weberian (material) approach and frequently focus on the formation of local accountancy bodies (Spence et al. (2019) is an exception). Additionally, they often do not give much consideration to contemporary global forces influencing such relationships as well as how these norms affect the way social order is maintained.

With the intensification of transnational activities, research on state-profession relationship, as we saw, started to deviate from examining how social order is maintained to focusing on the professionalisation of accountancy. I believe both perspectives have different methodological concerns. The way the accounting literature examines professionalisation pushes researchers away from understanding the situation in its totality. I find looking at audit regulations from the lens of the maintenance of social order provides a deeper understanding of a social problem. I agree with a recent literature review paper by Chua et al. (2019) that stressed understanding contemporary accounting regulations by following a modification to Puxty et al.’s social order perspective (state, market, community). Chua et al. proposed including transnational agencies and the accountancy profession to Puxty et al.’s social order model,

with which I partially disagree. I believe the accountancy profession was and still is part of the market.

In audit regulations research, prior studies that examined the application of global norms, although few in number, focused on the struggle surrounded the creation of a state body (similar to the US PCAOB) in corporatist systems, but omit investigating other norms. These studies concentrate on the material structure of northern states with similar social systems underpinned by inherited corporatist arrangements, local neoliberal order, tax logic, and relatively similar “democratic” arrangements. Arguably, these studies, from a macro analysis, share many similarities from their methodological perspectives to their findings.

Within the broader state-accountancy profession literature, there are lots of problems about which the prior accounting studies do not inform us:

- We do not know much about the interaction of global accountancy norms with non-corporatist social arrangements. Associated with this shortage in our knowledge is the confrontation between indigenous practices and the embedded culture of international norms.
- The process of international best practices is a widely neglected theme in critical accounting literature. Relatedly, we know nothing about the process/politics of implementing other global “best practice” norms in the audit domain such as audit independence technologies: auditor rotation and the prohibition of advisory services. In fact, critical accounting lacks consideration of audit regulations within contemporary corporate governance systems.
- We do not know much about the state-accountancy profession dynamics in the Arab world.
- As I covered studies in the sociology of the audit profession that used Bourdieusian ideas (Section 2.4), very limited research incorporated Bourdieu’s theory of the state. In a similar vein, Halliday and Carruthers’ work in transnationalism is highly cited, but their recursivity model (which is

an integral part of their transnational ideas) is not found to be applied in the accounting literature.

I intend to contribute to these issues to extend our understanding in the accounting literature.



### 3. THE CONTEXT OF KUWAIT

#### 3.1. Introduction

Ezzamel and Xiao (2011) argue that for accounting and auditing change, global pressure leaves no space for societies to develop practices based on their particular needs; this is indeed so. In the previous chapter, I examined how non-positivist studies viewed and analysed the relationship between the state and the audit profession in different cultures. I also illustrated how prior studies realised economic globalisations, their methods, and their encounters with nation-states' audit regulatory arrangements.

In this chapter, as audit (practices) do not exist apart from the social system in which they operate (Cooper and Sherer, 1984; Puxty et al., 1987), I intend to provide a general explanation of the Kuwaiti social system in which modern audit regulations evolved. However, although I would very much like to provide a detailed description of the Kuwaiti context, enumerating all social aspects here is impractical. It is mainly because excessive description “inhibits the analysis of data” (Bryman, 2016, p. 395)<sup>15</sup>.

This chapter is organised as follows: I start by illustrating some general geographic and demographic information. Then I explain the social structure of the Kuwaiti people. In Section 3.4, I intend to demonstrate Kuwait's distinctive social system. It is followed by a general explanation of the historical aspects of the genesis of modern Kuwait as well as historical causes that underpin Kuwait's unique social system. I then describe the political, bureaucratic, and economic structures of Kuwait. At the end of this chapter, I write about the capital market of Kuwait, followed by the chapter conclusion.

It is worth noting that, as this chapter aims to provide a general understanding of Kuwait, I decided to move the explanation of changes to the audit regulatory framework to a dedicated chapter, Chapter 6. This was because my

---

<sup>15</sup> In a previous version, I tried to write this chapter using a chronology to explain events that (re)shaped Kuwait social systems. I found it chaotic, complicated, and out of control. Accordingly, although I believe all social aspects are intertwined, to make this chapter easier to digest, I decided to explain Kuwait based on separate categorisations of the social space.



explanation of the Kuwaiti regulatory framework was mainly a result of an analysis of laws and regulations as well as my interview findings.

### **3.2. Geographic and demographic background of contemporary Kuwait**

Kuwait is located in the northeast of the Arabian Peninsula and north-west of the Arabian Gulf. It shares borders with Iraq in the north and Saudi Arabia in the south. Across the Gulf, Kuwait faces Iran (see Figure 2). All Arabian Gulf countries (except Iran) share a similar language and culture, underpinned by Islam. Ecologically, although there is seawater on the east side, Kuwait has a desert and arid climate. Especially in summer, Kuwait is considered one of the hottest areas on Earth.



Figure 2: Kuwait's geographic location

Kuwait is an independent city-state (slightly smaller than the State of New Jersey in the US and Slovenia in Europe) with an area of 17,818 sq. km. It has

one central city (city of Kuwait). Following is some recent demographic information:

Total number of inhabitants	4.5 million
Kuwaitis citizens (51% male, 49% female)	30%
Expatriates (69% male, 31% female)	70%
Indians	1 million
Egyptians	0.675 million
Bangladeshis	0.275 million
Workers in government institutions	
Kuwaitis	74%
Non-Kuwaitis	26%
Workers in the private sector	
Kuwaitis	4%
Non-Kuwaitis	96%

Table 1: Some demographic information on Kuwait (1)

Source: (The Public Authority for Civil Information, 2019)

Language	Arabic (English widely spoken)
Religion	74% Muslims 18% Christians 8% Others
Median Age	30 (male) 28 (female)
Literacy	96% male 95% female

Table 2: Some demographic information on Kuwait (2)

Source: (The US Central Intelligence Agency, 2018)

As the above two tables describe, Kuwait is an educated, multi-cultural society. However, it is very difficult for non-Kuwaitis, who represent the vast proportion of residents, to become citizens or even permanent residents (even for expatriates born in Kuwait), as no clear programme to gain citizenship exists.

For expatriates (including their families), living in Kuwait is mainly conditioned on securing a job and having a local sponsor. Accordingly, because work in government institutions is widely dominated by Kuwaitis, especially for mid-level and senior bureaucratic positions, private organisations attract and “favour” expats. This includes the audit field. Now I move to explain the social structure of the indigenous people living in Kuwait.

### **3.3. Social classification of Kuwait society**

Kuwait is a Muslim country controlled by its indigenous people. However, social classification of individuals depends on many factors and is mainly based on blood-lines (family, tribal names/roots), ideological aspects (religious and political), as well as loyalty to the social system, norms, and order.

The symbolic status of an individual depends firstly on either belonging to the royal family or a wealthy merchant family. As the majority of these families are historically rooted to *Najd* (a town in Saudi Arabia), the public differentiate themselves based on their historical roots (or not) to *Najd*, the origin of the local symbolic group; these are the ruling families. That is, a *Najdi* rooted family often has a higher social symbolic status than a non-*Najdi*.

Another important method of social classification is between *Badu* or *Hadar*.<sup>16</sup> That being said, there are some differences in the underpinning cultural traditions between the two. However, although ruling families are mainly *Hadar-Sunni*, *Badu* only started to develop their political and economic interests since the 1970s. This made many *Bedouins* a late runner in accumulating economic, political, and symbolic capital in comparison to *Hadar*. However, they cover these short-comings by mainly accumulating social capital, especially with their tribes, to represent an influential social bloc(s).

---

<sup>16</sup> According to Longva (2006, p. 172): “the term hadhar designates Kuwaitis whose fore fathers lived in Kuwait before the launch of oil era (1946) and worked as traders, sailors, fishermen, and pearl divers. In contrast, the term badu designates a specific group of newcomers: these are immigrants, mostly from Saudi Arabia, who used to live on animal pastoralism; they moved to Kuwait between 1960 and 1980, after Kuwait had become an independent, oil-exporting nation, and have been granted Kuwaiti nationality over the years since then.” Although this is a broad definition, there are some exceptions. For example, some badu tribes used to live inside Kuwait territory, but outside Kuwait residential town/city.

Ideologically, the Kuwaiti people could be set in one of three overlapping categories: Islamist, conservative, and liberal. Although Kuwait is a Muslim country, there are different branches of Islam. In fact, there are different schools, even within the *Sunni* and *Shia* Islamic branches.

Within the *Sunni*, the *Salafi* group, for example, is more strict on religious issues. They have interest in maintaining social order, loyalties to rulers and their school of thought is often inclined to the Saudi Arabian religious school. The *Muslim Brotherhood* is another *Sunni* Islamist group that is more pragmatic on religious issues, interested in accumulating economic and political powers, and used to favour Egypt (as leaders of Muslim Brotherhood movement) before the current ruling regime. Now they lean toward Qatar and Turkey, countries that offer support to their political interests. The *Shia* also have different schools of thought and are mainly attracted to Iran, which holds the highest *Shia* population.

The second ideological group is Islamist conservative. This group represents, I think, the majority of the Kuwaiti people. This group has been raised with Islamic philosophy and believes that religion is an important source to organise social relationship but not in a strict way. They have no interest in joining religious groups (agendas) such as *Salafi* or *Muslim Brotherhood*, but share many of their different religious and political beliefs which gives Islamist groups local influence.

Liberal ideology in Kuwait does not necessarily follow the Western definition of liberalism. Liberal groups in Kuwait vary from the left to the right, but mainly position their political interests in removing the role of Islam, and especially the involvement of Islamists, in regulating and influencing social life.

Ideological affiliations are unknown in Kuwait because there is no census on these socially “sensitive” issues. However, the approximate classification of the society could be anticipated based on the outcome of the parliamentary election, especially as related to *Sunni* and *Shia*. However, despite the design of constituencies, non-voters, and winning based on high voting numbers, are all factors influencing the outcome of the election which still, arguably, reflect

an approximate image of the structure of Kuwaiti society. Now I will provide general background on the uniqueness of Kuwait's social system.

### **3.4. The distinctiveness of the Kuwaiti social system**

What distinguishes Kuwait and most of Arabian Gulf countries is their economic system. Most Arabian Gulf countries, including Kuwait, depend on oil as the primary source of economic revenue, not on taxes. What I mean is that the state owns the oil and controls its means of production, not private corporations. In recent years, however, after the 2014 decline of oil prices and the intensive involvement of international organisations (especially the IMF) in recommending neoliberal proposals, such a dependence on oil started to vary between the Arabian Gulf countries. Each country began to search for alternative economic resources (e.g., privatisation) and some introduced, excluding Kuwait, some types of taxes (e.g., value-added tax). Still, oil continues to be the main source of revenue for the Arabian Gulf countries. In Kuwait today, oil revenues continue to represent around 90% of the government's annual economic resources (The Ministry of Finance, 2019).

Although the Gulf countries share a similar culture and language, Kuwait is different due to two main factors. First, the historical existence of politically powerful merchant families outside the royal family did not happen elsewhere in the Gulf (Crystal, 1990). In Kuwait, both merchants and royal families form what used to be known as the ruling families of Kuwait. Recently however, with the death of many notable representatives of merchant families, ruling power now lies with a few individuals within ruling families. In the economic domain, these wealthy few (often) form (loyal) groups to advance their diverse (and sometimes) contradictory interests (within different state apparatus) and compete with each other to accumulate different forms of power, most noticeably economic and symbolic, to legitimise their domination. Therefore, arguably, the correct contemporary definition of ruling power in Kuwait is not ruling families, but ruling groups/classes as each of these groups is often controlled by a powerful individual. They compete with each other, but collaborate to protect their symbolic legitimacy.

Second, Kuwait has a semi-democratic monarchy which has not had a single change to its constitution since it was implemented in 1962. The constitution was implemented in a time of rising socialist and communist ideas in the Arab region, including Kuwait. The no-change setting with the internationalisation of neoliberal philosophy (both material and ideological), made the Kuwaiti political system a hybrid one.

As I will demonstrate later (see Section 3.6.1), the parliamentary institution empowers the public to freely elect parliament members to legislate and supervise the non-elected government. Publicly elected representatives have the power to vote for no-confidence against non-elected Minister(s), including the *Amir*-appointed Prime Minister. Also, the elected parliament, with a majority of its members, endorses the chosen Crown Prince of Kuwait (the future *Amir*, head of state). However, this parliamentary system became a ground for political and economic disputes between and within the ruling groups as well as other social groups.

Concerning the financial audit system (details in Chapter 6), audit firms have existed in Kuwait since 1952 (Altaher et al., 2014). That being said, audit practices were regulated from 1962 on, but only in 1981 was a comprehensive Audit Law enacted that empowered the Ministry of Commerce to regulate all aspects of corporate external audit(ors) with limited power to the local accounting body. Interestingly, since 1981, the audit law not been changed. This law regulates auditors as individuals without legally recognising the “firm(s)” in which they practice audit. However, despite the no-firm legal environment, international audit firms (including the Big 4) operate fully in Kuwait as members of their global networks. Remarkably, the Big 4 market share and symbolic status are noticeably unequal (details in Section 7.3).

Now I will provide more detail on the history of Kuwait and the historical events that underpin Kuwait’s distinctive social system.

### 3.5. The history of Kuwait

The word Kuwait is a diminutive of the word *koot* which means a fort. Casey (2007) argues that the area of Kuwait used to be referred to, in old European maps, as *Grane*, which in Arabic means a high hill. The fort on a hill is argued to be owned by one of the rulers of the Bani Khaled tribe (Abu-Hakima, 1984)<sup>17</sup>. This was a tribe that used to control the eastern side area of the Arabian peninsula (from Kuwait to Qatar) before the current Kuwait emerged.

To escape drought, some of the Bani Utub tribe including the *Alsabah* family, Kuwait's current royal family, left Najd (a town in the middle of the Arabian Peninsula, where many of the Arabian Gulf rulers are rooted) and eventually with the approval from the Bani Khaled ruler, they resided in Kuwait. Alqenaei (1946) argues that when many tribes and people emigrated to Kuwait in the mid-eighteenth century, with the approval of the Ottoman envoy in Basra, people decided to empower someone to manage the daily affairs of the polity and Sabah Bin Jaber from the *Alsabah* family (a family within the Bani Utub tribe) was chosen. To this day, individuals from the *Alsabah* family rule Kuwait.

Historically, one of the main reasons for Kuwait's flourishing was its location near Basra-Iraq (see Figure 2). In the eighteenth century, the Persians implemented a siege on the wealthy Ottoman-controlled city of Basra, Iraq. As Kuwait is located near Basra, many merchants moved from Basra to Kuwait, including the British commercial agency (Abu-Hakima, 1984). Accordingly, Kuwait became one of the main cities linked to British interests in India, which helped Kuwait to flourish economically.

During the eighteenth and nineteenth centuries, ruling power was maintained through taxes and customs paid by merchant families to the ruler, which gave merchant families significant political power (Crystal, 1990). The primary sources of merchant wealth were pearl hunting and sea shipping to India<sup>18</sup>.

---

<sup>17</sup> Bani means people and Khaled is a man name. Bani Khaled means people of Khaled.

<sup>18</sup> Finance and hierarchy is the business model of merchants' sea activities to control the "working class" (Crystal, 1990).

One of the major political shifts in Kuwait happened in 1896 when *Mubarak Alsabab* assassinated two of his brothers, Mohammad and Jarrah, who had helped each other in ruling Kuwait. Mohammad used to rule Kuwait and allowed his brother Jarrah to participate in the ruling, but not Mubarak. With their murder, Mubarak appointed himself as the seventh ruler of Kuwait (Abu-Hakima, 1984; Alqenaei, 1946; Alrushaid, 1978). This incident created tension not only locally with influential merchants, but also made the Ottomans accuse Britain of being behind this killing.

Mubarak approached Britain for protection from the Ottomans and the outrage of some local merchants (Abu-Hakima, 1984; Alrushaid, 1978). Britain rejected these requests to avoid tension in their relations with the Ottomans. However, only when the Ottomans empowered Germany and Russia to have a presence in the region through exclusive rights to build railroads, did Britain agree to protect Mubarak/Kuwait (Abu-Hakima, 1984).

This protectorate agreement of 1899 was another major shift for Kuwait, as it was limited to representing Kuwait in its foreign affairs. Post WW1, after Britain inherited the Ottomans influence in the Arabian Peninsula, and with the expansion of the Ibn Saud (current rulers of Saudi Arabia) regional power, Britain implemented border systems in the region. And because, arguably, this is considered an international matter, Britain represented Kuwait in the *Al Uqair* protocol of 1922 and allowed Ibn Saud to include two-thirds of Kuwait in their territories (Abu-Hakima, 1984).

Interestingly, the International Bank for Reconstruction and Development (IBRD) argues that at the time of the setting of borders between Kuwait and Saudi Arabia, Britain expected oil to exist in the south of Kuwait and purposely defined this area as a neutral zone so that any oil in the neutral zone would be jointly shared between the Kuwaitis and the Saudis (IBRD, 1961, p. 3)<sup>19</sup>.

During Mubarak's rule, modern Kuwait started to develop. According to Abu-Hakima (1984), in that period, in comparison to other regional cities, Kuwait

---

<sup>19</sup> IBRD is part of the World Bank group.



implemented an advanced mailing system, electronic telegraph, a hospital (by American Christian missionaries), as well as allowing a few locals to establish the first school in Kuwait, Almubarakeya school.

In the late 1920s, after the Mubarak rule, another major economic and political crisis happened due to the creation of Japanese cultured pearls. As pearls used to be one of the main sources of merchants wealth, this discovery had significant implications for the rulers and the public. During the same era, Kuwait was also affected by the Great Depression through Britain's reduced commercial activities in India which affected the revenues of Kuwaiti shipping activities, another major hit to the other main source of merchant revenues and eventually to the amount of taxes they paid to the ruler (Abu-Hakima, 1984; Crystal, 1990).

After a challenging decade, in 1938, during the protection agreement, oil was discovered in Kuwait by a concession agreement given to an Anglo-American corporate consortium (Gulf Oil Corp., currently Chevron Corp., and the Anglo-Persia Oil Co., currently British Petroleum), and Britain's interests in the region changed from a passage way to their interests in India to an area with crucial sources of income. In the same year, merchant families pressured the ruler and demanded creation of a constitution and parliament to participate in ruling Kuwait with its new economic resources. This political experience lasted for a year, and included deaths and imprisonments. However, immediately post WW2, in 1946, Kuwait exported its first crude oil commercial shipment. Kuwait received an agreed nine US cents per barrel, which was amended in 1951 to split profits 50/50 after Iran nationalised their oil (Crystal, 1990). Kuwait peacefully bought the shares of the Anglo-American consortium and fully nationalised its oil sector in 1975.

With the discovery of oil, a new era began in Kuwait. The ruler(s) started to become independent from monies paid by the merchants. And with the expansion of bureaucratic institutions, the ruler started to empower his family to assist in ruling Kuwait (Crystal, 1990). To win the legitimacy/loyalty of the public, and to attract people to work for government institutions, the

government offered more secure and relaxed employment. It implemented a program for government employees to settle debts owed to the merchants (Crystal, 1990).

As I will discuss later (see Sections 3.6.2 and 3.7.1), before the implementation of the Kuwaiti constitution, all state bureaucratic institutions used to be headed by the Alsabah family (IBRD, 1961). According to Crystal (1990), the merchants started to establish political lobbies (e.g., a Chamber of Commerce) for their political disputes with the royal family over reducing the latter's involvement in decision making. However, to maintain an alliance with a powerful social group--merchant families--a share of oil was given to them (indirectly through contracts) in return for their reduced participation in decision making (Crystal, 1990).

### **3.5.1. The birth of capital practices in Kuwait**

In line with the creation of the oil industry in the 1940s, Kuwaitis started to learn capitalist practices from Britain through their management of commercial oil operations. In 1942, to manage oil revenues, Britain opened its first commercial bank branch in Kuwait and the first in the Arabian Gulf region, primarily operated from Iran with many offices in the Middle East, called the Imperial Bank of Persia (later the British Bank of the Middle East and now part of HSBC). In 1950, the Kuwait branch, because of oil activities, according to Brenchley (1989, p. 49), was the most profitable office for the Imperial Bank. And, in the same year, the bank moved its headquarter from Iran to Kuwait<sup>20</sup>.

In 1951, Kuwait applied its first corporate income tax law which was then amended in 1955. However, according to Mulla (1997), this law was written in English and then translated into Arabic. This law was designed for (or probably by) foreign oil companies to escape high taxes paid in their own countries. Mulla (1997, p. 30) explained that paying taxes on income from exclusive rights is not a deductible type of tax in the home countries of foreign oil companies,

---

<sup>20</sup> This was during the period of the Iranian struggle to nationalise their oil industry.

and henceforth, the taxes paid to Kuwait had been re-classified (through the law) to a deductible type of taxes, the foreign tax credit.

The income tax law in its original English version had terms which, when translated into Arabic, created confusion. For example, income tax applies to the “body corporate”, but what did the term mean? Later, “body corporate” was clarified by the tax director as a separate legal entity from its owners. However, because Kuwait did not have a Companies Law to regulate entities, taxes became applicable only to companies registered abroad (International Business Publications, 2012, p. 34; Mulla, 1997, p. 31). This interpretation was the starting point for a tax-free environment for Kuwaiti companies.

In 1952, after local taxes were waived from Kuwaitis, local merchant families established the first local shareholding company in Kuwait, the National Bank of Kuwait. In 1953, merchants founded Kuwait National Airways (now Kuwait Airways), and a few years later, it became wholly owned by the government. In 1954, the Kuwait National Cinema Company was also established and in 1957, the Kuwait oil tanker company, followed by many more.

With the increase in the size and number of companies, merchant families in 1959 established the Kuwaiti Chamber of Commerce and Industry as an official political lobby for the merchant community to protect their commercial interests (before Kuwait’s constitution). It is worth noting that as the Chamber of Commerce and Industry was established before the Kuwaiti constitution, it is the only “legal” organisation in Kuwait that continued its operations without a parliament legislated law (Almoqatei, 2010). The Chamber of Commerce resisted and confronted some parliamentary recommendations to reform its laws and to include it under the oversight of the government and parliament.

One year after the establishment of the Chamber of Commerce, the first Companies Law no. 15 of 1960 was implemented and empowered the Ministry of Commerce to regulate and oversee the activities of the growing local companies. This law was only reformed (in 2016) to complement the activities of the new capital market regulator (see Section 7.2.1.3).

Furthermore, as the trading currency in Kuwait used to be the Indian Rupee, in 1960 Kuwait also implemented its first official currency, the Kuwaiti Dinar. In 1969, Kuwait established its first central bank (the Central Bank of Kuwait: CBK), responsible for Kuwait economic-monetary policies and to oversee money trading and financing activities. CBK works as the government's bank and financial advisor.

Concerning audit practices, according to Altaher et al. (2014), in the early 1940s, the British firm Peat Marwick (KPMG since 1987) was appointed to provide audit services for the Anglo-American oil consortium, travelling from Britain to Kuwait and back, as required. In 1952, Whinney Murray (Ernst and Young as of 1989) opened its first audit firm in Kuwait, taking over the audit for oil activities; later on, many Kuwaiti companies started to use their audit services (Altaher et al., 2014).

### **3.5.2. Kuwait: independence and constitution**

In 1961, after a decade of geopolitical disputes between the Arab block and Western block concerning Palestine and Israel, the independence of India and Pakistan, Iran's nationalisation of its oil industry, the Egyptian revolution and nationalisation of Suez Canal, the Iraqi revolution, the rise of Pan-Arabism and Arab communist ideas, global pressure against British colonial strategies as well as local pressure in rejecting British involvement in representing Kuwaiti external affairs, the protection agreement was cancelled and Kuwait became freely independent on the international stage.

According to Hijazi (1964), before independence was granted, Britain demanded that Kuwait modernise its legal system. This was probably to protect its interests in Kuwait, i.e., oil and influence. However, Kuwait approached a famous Egyptian judge (Abd El-Razzak El-Sanhuri, the author of the Egyptian civil code) to design the legal system of Kuwait. Henceforth, following the Egyptian system based on French law, Kuwait adopted a civil law legal system. Casey (2007) explains that Britain also helped Kuwait to be able to defend itself by increasing its defence forces.

Hijazi (1964) argues that upon independence, Abdulkarem Qasim, the president of Iraq (in office from 1958 to Feb. 1963), claimed Kuwait to be Iraqi territory as it was under the influence of the Ottoman envoy in Basra. For Kuwait to legitimise itself as a sovereign state in the global arena, two international memberships were targeted, the Arab League and the United Nations. Despite Iraq's rejection of Kuwait's request for membership in the Arab League, the request was accepted one month after independence. But Kuwait's demand to the United Nations was rejected because the USSR (which backed Iraq's leader, an Iraqi communist party supporter), used its veto power. However, when another political party took over after Qasim's rule ended, the USSR withdrew its veto, and Kuwait was admitted to the United Nations in May 1963.

There are various arguments addressing why Kuwait, unlike its surrounding Arab region, democratised its political life. Hijazi (1964), for example, argues that the Iraqi autocratic claims against Kuwait was one of the motives that influenced the Kuwaiti ruler at that time (Mr Abdullah Alsalem Alsabah) to democratise Kuwait's political system. Similarly, Herb (2016) argues that the implementation of Kuwait's constitution was a method of refuting Iraqi threats by demonstrating the monarch's support of the Kuwaiti people. Others, for example, Alnfese (2017, 00:45:50), argues that for Britain to protect its interests in Kuwait (oil and influence) and to counter its international colonial image, democratising Kuwait was British designed and conditioned to grant Kuwait its independence in representing its external affairs.

The following sections explain Kuwait's political (parliamentary and government) system.

### **3.6. Kuwait's political system**

The constitution of Kuwait was not a result of war or social revolution. Kuwait had a couple of attempts to institutionalise a parliamentary system in 1921 (due to regional and inter-ruling families tensions) and 1938 (due to oil discovery). These attempts were ended shortly after they were implemented. However, from 1962 on, for reasons mentioned in the earlier section, Kuwait's

ruler Mr Abdullah Alsalem Alsabah implemented a constitution that classifies the governance of Kuwait into three authorities: judiciary, legislative, and executive. All these institutions operate under the authority of the *Amir*.

With the constitution, power became inherited within the bloodline of *Mubarak Alsabah* and all natural resources (oil) are owned by the state. People are entitled to free medical services and education, and it became the government's responsibility to secure jobs for Kuwaitis. Nonetheless, although the constitution places emphasis on social justice, freedom, and equality as the pillars of the society (based on local laws and regulations), private ownership is also encouraged and protected. The constitution also forbids Kuwait to directly enter wars to attack other countries, but only to defend itself.

In Kuwait, official political parties cannot legally participate directly in the election process, but only individuals with their different ideological/political affiliations. The public (Kuwaitis only) freely elect individual members for the parliament to legislate and supervise all non-elected executive (government) operations. The elected parliament has the power to vote no confidence against any government minister(s) (including the *Amir*-appointed Prime Minister). It is also empowered to, with a majority of its members, endorse the *Amir*-named Crown Prince of Kuwait (the future *Amir*). Parliamentary members have full legal immunity for their activities inside the parliament.

As the judiciary system is relatively independent of tension between social groups, I will now provide a general understanding of Kuwait's parliamentary and bureaucratic government structure as part of its broader political system.

### **3.6.1. Kuwait's parliamentary arrangements**

The parliament is represented by a maximum of 66 members in a unicameral system. This includes 50 elected members based on specific constituencies and a maximum of one-third (16) non-elected ministers (including the Prime Minister). The 50 elected members legislate and oversee the practices of the non-elected government represented by individual ministers. All 66 members have voting powers.

The number of constituencies was changed from 10 in 1962 (with five winning members in each constituency) to 25 in 1980 (with two winning members in each constituency), and to five in 2008 (with ten winning members in each constituency). However, as each constituency is not equally divided based on the number of voters but on residential areas, changing constituencies is a method of influencing the outcome of the election (characteristics of parliament members).

It is worth noting that the 66 parliament members (50 elected members plus a maximum of 16 ministers) elect a speaker from among the elected members. Often a speaker is from a famous Kuwaiti family. However, since 1999, parliament has been chaired by members of the wealthy merchant families. Ironically however, as the design of the constitution involved many individuals from merchant families, it does not forbid parliament members from combining political with commercial activities.

Parliament became an official battle ground for different social groups with their different beliefs, ideologies, loyalties, and symbolic status. It also became a site of conflict within the royal and within merchant families as well as between ruling groups. With time, the regionally unique democratic experience got subverted by some influential locals. Infiltration in the parliamentary system is often achieved through accumulating loyalties among the parliament members to support ruling decisions. Also, the government became involved in such (loyalty construction) practices with some parliament members through many facilities/clientelism for loyal members (also see Section 9.2).

As all constitutional authorities (judiciary, administration, and parliament) work under the *Amir's* power, the *Amir* has the constitutional ability to revoke the parliament. When political conflicts (due to local or regional issues) between the parliament members and ministers reach a dead-end, the *Amir* may interfere through revoking parliament and calling for a new election. That is done to reduce political tension, change the government ministers, and probably, to affect the election outcome.

Kuwait's parliamentary life has witnessed ten dissolutions, seven times during the ruling of the current *Amir* (Aljazeera, 2016). Including these ten dissolutions, the parliament was suspended twice; in 1976 for four years and in 1986 for six years. During the second suspension, Kuwait was invaded by Iraq (more detail in Section 3.7.2.2).

The parliamentary experience used to be limited to males. Since the 1990s, women began appearing in senior positions in the government as deputy minister and an ambassador. However, only in 2005 were females empowered by the parliament and the government to fully practice their parliamentary rights. In the same year, the first female minister was appointed and in 2009 women began to win parliamentary seats. However, women still have weak representation in the political system.

Despite the social changes in Kuwait from the early 1960s onward, the Kuwaiti constitution has never been amended. One of the reasons for the no-change political environment is that majority of social groups worry that change may result in more constraints/suppressions to the political space (e.g., increasing the power of the government, reducing parliament's authority), Bahrain (Kuwait's neighbour) is one good example.<sup>21</sup> Now I will go on to explain the structure of the bureaucratic field (government) in Kuwait.

### **3.6.2. The government structure**

The government, as per the Kuwaiti constitution, is managed by a maximum of 16 ministers, including the Prime Minister. The *Amir* appoints the Prime Minister. The appointment of ministers is based on the recommendation of the Prime Minister and the approval of the *Amir*. Three ministries are always administrated by members of the royal family (Alsabab): the Ministries of Defence, Internal, and External Affairs. Other ministries are often administrated by ministers outside the Alsabab family. However, because the constitution was implemented for a different time, and the resistance of many

---

<sup>21</sup> In early 1970s, Bahrain implemented a constitution similar to Kuwait's during the period of their independence from Britain. In 2002, the Bahraini constitution was amended, which resulted in reduced political authority for parliament members.



social groups to amending the constitution, one of the methods of overcoming such obstacles is to establish government agencies attached to ministers. The following table represents the number of government bodies attached to each minister;

Known as:	Main ministry	Other ministries	Other bureaucratic agencies under the responsibility of the minister	Total
Minister of defence	Defence	-	2	3
Minister of foreign affairs	Foreign affairs	-	1	2
Minister of interior	Interior	-	3	4
Minister of cabinet affairs	Cabinet affairs	-	6	7
Minister of Commerce	Commerce and industry	-	10	11
Minister of finance	Finance	-	9	10
Minister of education	Education	Ministry of higher education	4	6
Minister of mass communication	Mass communication	Ministry of youth affairs	4	6
Minister of public works	Public works (construction)	Ministry of housing affairs (new)	3	5
Minister of economic affairs (new)	Planning and development	-	4	5
Minister of social affairs and labour	Social affairs and labour	-	2	3
Minister of Health	Health	-	1	2

Minister of justice	Justice	-	2	3
Minister of Awqaf and Islamic affairs	Awqaf and Islamic affairs	-	4	5
Minister of energy	Oil	Electricity and water	1	3
<b>15 ministers</b>	<b>Running 15 main ministries</b>	<b>Additional 4 ministries</b>	<b>56 bureaucratic agencies</b>	<b>75</b>

Table 3: Responsibilities of each minister within the government

Source: (Alqabas Newspaper, 2019)

Bourdieu (2004, p. 31) argues that lengthening the chain of bureaucratic authorities reduces central power. I do not know if the 56 bureaucratic agencies were created because of a real need, or if they represent a method of the government to provide senior positions for their political allies, a bureaucratic technique to overcome parliamentary-ministerial direct involvement, or if the creation of these agencies is one of the methods used by influential groups to infiltrate the government (indirectly). However, the majority if not all senior positions within these agencies are either appointed by the cabinet or recommended by the responsible minister and appointed by an *Amiri* decree.

Recruitment of non-senior positions differs between ministries and attached government bodies. For most ministries and some attached government agencies, recruitment, especially for non-senior Kuwaiti officials, goes through a central recruitment agency (The Civil Service Commission) such as the Ministry of Commerce. Some non-ministerial bodies can decide autonomously whom to recruit (see Section 7.2.1.2).

The Civil Service Commission often classifies potential recruits based on education as well as specialisation. Despite the quality of an individual's cultural capital (education), it treats graduates with similar specialisations and degree levels the same (as long as their qualification is from an accredited university).

This recruitment system dissuades graduates with high cultural capabilities from working at government agencies that follow the centralised recruitment system. Also, arguably, such a system does not encourage youth to invest in their cultural competence. Nonetheless, the government recruitment policy and political clientelism in the appointment of senior government officials has resulted in many government agencies that are over-staffed, less efficient, and often exposed to political interference and tension.

### **3.7. Economic system of Kuwait**

Economically, Kuwait depends on producing and selling oil as the primary source of state revenue. Currently, Kuwait produces approximately 2.8 million barrels per day (IMF, 2019). In spite of Kuwait's small size, it owns 6% of the world's total oil reserves (The US Central Intelligence Agency, 2018). According to the Ministry of Finance (2019), Kuwait's revenues from selling oil is 90% of total revenues whereas tax revenue is only 3%.

There are no income taxes for any inhabitants (Kuwaitis and non-Kuwaitis), and only Kuwaiti shareholding companies pay three forms of nominal annual taxes, totalling 4.5% of their annual profit. Taxes of 15% exist for foreign companies.<sup>22</sup> However, this oil-dependence/tax-free system was not the case before oil discovery. Taxes used to be a vital part of the ruling system (see Section 3.5).

Another important economic issue is the Kuwaiti sovereign fund, managed by the Kuwait Investment Authority (KIA). Kuwait owns the fourth largest and internationally oldest sovereign wealth fund established in 1953, with a current estimated worth of US\$500 billion (SWF Institute, 2018). Kuwait's sovereign wealth fund is managed through offices in Kuwait, London (since 1986), and Shanghai (since 2018).

---

<sup>22</sup> In 1955, taxes on foreign companies were set at 55%. The logic of the tax law was designed for Western oil companies (pre-nationalisation in the 1970s) and continued with the same rate even after Kuwait fully nationalised its oil industry. In 2008, income taxes on foreign companies operating in Kuwait was changed to 15%.

The KIA invests budgetary surpluses (general reserve fund) in addition to 10% of total revenues allocated to a specific fund managed by KIA. Despite the state annual financial net position, annual monies (10% of total revenues) are allocated to KIA to be invested overseas. However, details on the fund's investment strategies or profitability are unknown to the public, but the majority of these monies are invested in the US (Alarabiya, 2017).

Although Kuwait's economic system may sound solid and relaxed, in reality, it is not. The following table represents Kuwait's financial position in the last five years:

Year	Actual revenues Approx. in USD (billions)	Position	Deficit amount in KWD (billions)	Deficit amount Approx. in USD (billions)
2014/2015	81.725	Actual deficit	2.721	8.921
2015/2016	44.701	Actual deficit	5.975	19.590
2016/2017	42.951	Actual deficit	5.918	19.403
2017/2018	52.459	Actual deficit	4.848	15.895
2018/2019	67.406	Actual deficit	3.346	10.970

Table 4: Kuwait fiscal closing accounts in the last five financial years

Source: (The Ministry of Finance, 2019)

Fiscal deficits are covered (in addition to emergency capital needs) by withdrawing from the state general reserves fund. Some parliament members, in return, resists government demands to approve their IMF-driven economisation reform proposals (e.g., privatisation) and approves a credit line for government borrowing. The justification for such parliamentary resistance is the government's "significant" weakness and mismanagement of the state financial resources. However, with the current government strategy of covering its fiscal deficit, it is expected that Kuwait's general reserves fund may be depleted in the next four years (Reuters, 2019).

In the last couple of decades, Kuwait started to think of facilitating and attracting foreign monies to operate there. In 1963 Kuwait became one of the

first countries in the region to be admitted as a member of the General Agreement on Tariffs and Trade (GATT). And automatically, in 1995, it became one of the founding members of the World Trade Organisation (WTO, n.d.). For a foreign company to operate directly in Kuwait, it has to be registered there and pay an annual tax of 55%, which only changed to 15% in 2008.

Maintaining the high taxes was probably a strategy by merchant groups to dissuade the interference of foreign monies in the merchant monopoly over local commercial activities. To escape from the local tax system, international companies often exist in Kuwait through commercial agencies that used to be limited to Kuwaitis. The Commercial Agencies Law (law number 36 of 1964) allows a foreign company to operate there but only through a Kuwaiti agent. This law was amended in 2016 (law number 13 of 2016). The amendment allowed international companies to operate in Kuwait through more than one Kuwaiti agent. It also allowed a Kuwaiti individual or group to own at least 51% (a majority) of a local company (instead of 100%, as the old law required) to be able to become an agent for a foreign company.

Kuwait only enacted a law to regulate foreign direct investments in 2001 (law number 8 of 2001). Nonetheless, this law is not a full liberalisation of the Kuwait market. The law empowers the ministries' cabinet to decide on the commercial activities and projects that foreign capital can participate in. The law also gave authority for the Minister of Commerce, based on the recommendation of the foreign investment committee, to bypass the Companies Law and allow foreigners to establish a company with a majority of ownership. In the same year, 2001, the income tax on foreign property was 55% (amended to 15% in 2008) but a waiver on income tax could be granted for a maximum of ten years.

In 2013, a new institution was established (the Kuwait Direct Investment Promotion Authority), chaired by the Minister of Commerce, to encourage and facilitate direct investments for both local and foreign investors.

### **3.7.1.Merchants and the economy**

With the increase of state wealth, to maintain order within ruling families, Crystal (1990, p. 8) argues that a pact existed between the royal and merchant families, where the royal family only rules and the merchants are responsible for private businesses. According to Crystal, to compensate merchants on their reduced involvement in ruling decisions, a redistribution of wealth took place: the government bought merchant lands at high prices and sold them back at low prices. The government also limited local trade and commercial activities to Kuwaiti merchants. This type of arrangement between ruling groups is probably a method to incentivise merchant groups to support the government in controlling the public, especially in the parliament.

Today, some individuals from the royal family operate businesses and some individuals from the merchant families chair parliament and (indirectly) occupy senior positions in the government through their group loyalties (see Section 3.4). However, one of the critical institutions as a medium for wealth distribution in Kuwait is the public tenders system. Public Tendering Law number 37 of 1964 requires that any government institution wishing to spend (to buy or construct) more than 5,000 Kuwaiti dinars (equivalent to US\$16,000) must use a public tender. The public tendering committee is a subcommittee of the ministers' cabinet and is formed by six members appointed by the cabinet. To become involved in all kinds of tenders, a participant must be a Kuwaiti merchant and registered with the Chamber of Commerce and Industry (merchant lobby).

Nonetheless, foreign companies are allowed to bid on tenders but must have a Kuwaiti merchant representative. Also, builders are classified into four categories based on the size of the tender and the capabilities of the merchant. Merchants can jointly participate in a single bid. The only exception to this system is the military goods and weapons requirement. This system has been in place for the last 50 years, and the average yearly government contract, for example, in the previous five years was US\$16 billion (National Bank of Kuwait, 2018).

According to the Alshahed Newspaper (2014), six merchant families won over 95% of Kuwait's tenders. The majority of merchants' large companies (especially construction companies) are family-owned and non-listed. The public tendering law was changed in 2016 (law 49 of 2016) and allowed non-Kuwaiti companies--with many conditions--to participate in these public tenders without a direct Kuwaiti representative. Still, the new law prioritises local companies and manufacturers over non-Kuwaiti companies.

The following section explains Kuwait's capital market system.

### 3.7.2. Kuwait's capital market

For many decades, the Companies Law of 1960 was the basis for governing private corporations. It regulated certain aspects of shareholding companies, including shares, internal control systems, as well as their financial audit (see Chapter 6). The Ministry of Commerce used to have significant direct involvement in regulating share trading, even before opening the first (temporary) stock exchange site in 1972. A new capital market regulator was created in 2010. However, Figure 3 shows how strongly Kuwait's capital market is correlated with oil prices, the primary source of revenue.

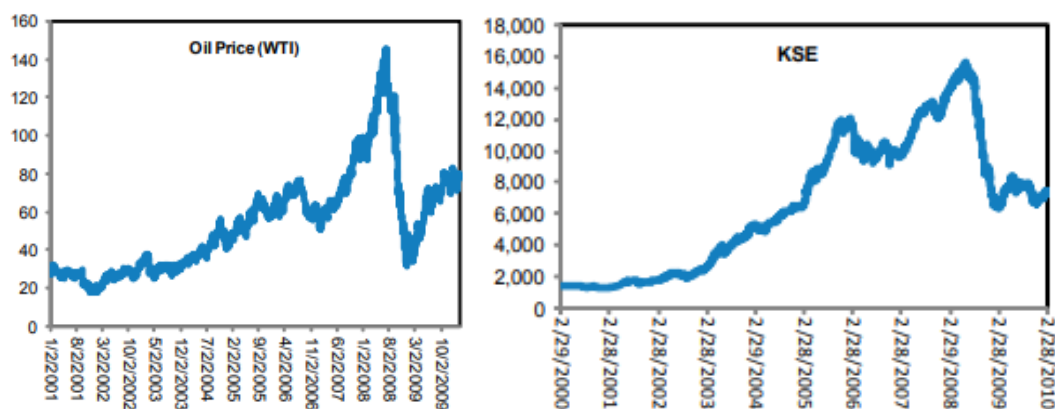


Figure 3: International oil prices and Kuwait Stock Exchange (KSE) market index

Source: (IMF, 2010, p. 42)

Aside from significant fluctuations in the international oil price since the 1960s, Kuwait has witnessed three substantial crises with significant economic, political, and social implications: the *Souk Almanakh* stock market crash of

1982, the Kuwait invasion in 1990, and the global financial crises of 2008. Despite these Crises, Kuwait only recently increased its capital market integration with the international capital system following the oil price collapse of 2014. Historically however, the capital market of Kuwait witnessed two significant reforms. The first reform was a reaction to *Souk Almanakh* of 1982 and the second reform was caused by the global financial crises of 2008. However, the nature of these two reforms is different.

It is worth noting that except for Souk Almanakh collapse, the history of economic and financial systems and crises in Kuwait is poorly documented. In the following sections, I will explain the incidents of Souk Almanakh, the Kuwait invasion, and the subsequent global financial crisis.

### **3.7.2.1. Souk Almanakh and the first stock market reform**

During the 1970s, with the oil embargo and the Iranian revolution, oil prices rose. These geopolitical incidents benefited politically “stable” oil countries. With Kuwait’s increased liquidity, interest in the accumulation of wealth shifted to the stock market. Merchants increased the establishment of shareholding companies. Kuwait witnessed the first market crash in 1976 (Kuwait News Agency, 2004). The government interfered by stopping the establishment of shareholding companies in Kuwait for two years, 1977 to 1979. The government also bought shares to support and stabilise the market and to protect the banking system. By the end of this crisis, in 1979, the government ended up owning 35% of listed companies (Al-Sultan, 1898, p. 30).

During that period, indirect government support (through the buying of shares), probably signalled to many merchants that the rich government will act as a “safety net” if anything went wrong. Consequently, with increased ownership by the government and controlled trading on capital markets, some merchants searched for other ways to overcome government constraints for wealth accumulation.

Some merchants created a secondary “unregulated” over-the-counter market, called Souk Almanakh (1979-1982). To overcome government constraints on



establishing shareholding companies, the majority of shares traded in this unregulated market were Kuwaiti owned companies established and registered in other Arabian Gulf countries (Al-Sultan, 1989). However, because this market was created outside the legal capacity of regulators, its trading activities were left without oversight.

As the Companies Law forbade the trading of shares before a company achieved three years of consecutive profitability, to overcome this regulatory condition, owners of some companies started to trade not using the company's shares, but letters of sale for these shares. Post-dated cheques dominated the scene in trading the stocks of these shell companies<sup>23</sup>.

The chaos started when investors began to cash post-dated cheques and found that there were insufficient balances to meet these cheques; everything started to fall apart. The implications of this collapse affected 6,000 people, including many within the ruling groups. This crisis resulted in 29,000 bad cheques worth US\$94 billion (Al-Sultan, 1989). Interestingly, one year before the Souk Almanakh crash, the first audit law was implemented, which remains in force, unchanged (see Section 6.2.1.2).

Following the Souk Almanakh crash, the Kuwaiti government implemented various solutions to limit the recurrence of a similar crisis. These include the establishment of a share trading clearing system, and applying a programme to restructure people's debts. Casey (2007, p. 120) argues that the debt restructuring programme cost around US\$20 billion. And, according to Al-Sultan (1989, p. 30), as a result of the support programme, by 1983, the government owned 48% of all listed companies on the main market.

One of the major institutional reforms post-Souk Almanakh, in 1983, was the establishment of a specialised regulator for stock market activities (*Amiri* decree of 14 August 1983). Instead of direct management by a unit within the Ministry of Commerce, regulation of the stock exchange was redesigned to be managed by a committee called the Market Committee (see Section 6.2.4).

---

<sup>23</sup> By Kuwaiti law, there is no such thing as post-dated cheques. Cheques can be cashed immediately even if they have a deferred date.

The KSE Market Committee became responsible for all issues related to share trading and in 1984, Souk Almanakh was closed permanently. However, the implications of this crash on some individuals continue to this day.

### **3.7.2.2. The 1990 invasion of Kuwait**

Without going into detail about the historical roots of the Iraq invasion of Kuwait (for details see Casey, 2007), the implications of this war were catastrophic at the social, environmental, and financial levels. The seven month invasion (from 2 August 1990 to 28 February 1991) and the battle to expel Iraq cost the lives of 1,000 Kuwaitis and the disappearance of an additional 600 people.

Financially, the war to expel Iraq from Kuwait (from 17 January 1991 to 28 February 1991) had an estimated cost of US\$61 billion of which Kuwait bore the majority (Callanan and Weiler, 2008). Casey (2007) argues that some estimated the maximum cost of total reconstruction at US\$100 billion. Kuwait prioritised the rebuilding of its oil industry and borrowed tens of billions of US dollars from international markets to cover its financial needs (Casey, 2007, pp. 118, 121).

The stock market re-opened in September 1992 and the government, due to cash shortages, sold much of its ownership in companies that were bought in the 1970s and 1980s as part of the rescue plan in the pre and post-Souk Almanakh crisis. These shares were mainly bought by wealthy Kuwaitis after Kuwait was invaded. Additionally, in 1992, the government publicly guaranteed banks deposits, avoiding any bank failures (IMF, 2004a, p. 19).

### **3.7.2.3. The Iraq invasion of 2003 and the global financial crisis of 2008**

The tension between Kuwait and Saddam Hussein's Iraq continued, and Kuwait started to recover from the economic costs of the invasion. In 2003, the US invaded Iraq, claiming it would remove Iraq's weapons of mass destruction. However, this war financially benefited Kuwait (IMF, 2004a, p. 7). Between 2003 and 2008, oil prices rose from US\$30 to US\$140. Also, according to

Fifield (2013), although the major winner of contracts throughout the Iraq war was the US company KBR (a subsidiary of Halliburton)<sup>24</sup>, many Kuwaiti companies provided services to the US military. Agility Logistics, for example, a Kuwaiti listed shareholding company, won contracts of US\$7 billion alone (Fifield, 2013).

As Iraq is an oil-producing country, with its invasion, the international supply of oil was reduced and oil prices rose subsequently. Kuwait benefited from the international rise in oil prices. As Figure 3 illustrates, oil prices influence the stock market. High oil prices along with the demolition of the Iraqi regional threat was reflected in higher confidence in the Kuwaiti governance system. This mirrored the position of the capital market. However, investors in the capital market used to be mainly locals.

During the five years from 2003 to 2008, many shareholding companies were established in Kuwait, and stock market listings increased. The number of investment companies doubled to 100 (IMF, 2010) and the number of companies traded on the Kuwaiti stock market jumped from 112 in 2003 to 200 in 2008. In that period, the KSE index accelerated from 3,000 points to 15,000 points, and the market capitalisation rose by 210% to US\$190 billion (Trading Economics, 2012).

Speculations, rumours, insider trading, and lack of regulatory oversight used to be the motor of the skyrocketing capital market, fuelled by billions of US dollars in business opportunities provided by the US for Iraq through many Kuwaiti companies, as well as rising oil prices. According to the IMF (2010), the skyhigh rise in oil prices gave Kuwait the highest stock market performance among the Arabian Gulf markets. However, it went out of control and ended with the global financial crises of 2007/8.

Many companies, especially those in the investment sector, used to borrow short term loans to finance long term investments and projects. It is possible that short term borrowing was acquired to fund difficult to liquidate or toxic

---

<sup>24</sup> Dick Cheney, the vice president to President George Bush (from 2001 to 2009) was the chairman and CEO of Halliburton Company from 1995 to 2000.

assets. And probably, in some cases, money was borrowed to pay dividends, bonuses, and remunerations. The practice was, as loans matured, they would be renewed or repaid by acquiring another loan from the same or another financial institution. Money was obtained from local and overseas financial institutions. When the crisis started in the US, most financial organisations stopped renewing their loans and, at maturity, began to call back their monies which created liquidity chaos in Kuwait.

The effect of the global financial crisis on Kuwait was not due to massive local investments in US derivative markets with its poisoned products. It was mainly due, as some of my interviewees argued, to weak regulatory oversight, liquidity mismatch, and mismanagement. On this matter some interviewees put it in this way:

In the global crisis [referring to the 2007/8 crisis] some people accused us of losing their money. I am not an executive, we give you facts, what you do with it is up to you. I cannot tell a company to buy or sell. I come to you as a shareholder and tell you that they have a high concentration of risk, they have a liquidity problem, you can see it from the numbers, it is your decision. My responsibility is clear; the numbers are correct. Is it good or bad, this is another thing. I give you facts, and you have to decide, I do not decide for you. (BIG-A)

[T]he companies that failed [referring to Kuwaiti companies during the global financial crisis] [it] was not due to toxic products, such as Lehman Brothers involvements in derivatives, it is all governance issues. It is clear mismanagement. There is no appropriate governance framework that boards and executive committee followed. There is no accountability. Accordingly, companies failed, each followed the other. (TIER3)

The implication of the global-Kuwait financial crisis created major disorder for those involved with the private sector (owners, management, staff, and shares traders). Many companies were forcibly delisted from the stock market, some investment company licences were cancelled by CBK and there were many disputes between company owners and management in general assembly meetings. Many ordinary people lost their money from this loosely regulated bubble which created significant conflict between the parliament and the government and, alongside the significant decline in oil prices, resulted in the

revoking of parliament and calls for a re-election, a political solution to reduce/divert political congestion.

Due to the liquidity shortage, many companies were not able even to pay their staff salaries, and many employees were laid off. The government implemented a programme to support laid off Kuwaiti private company employees. It injected some money into the stock market to mitigate the crash, without success. As the government guaranteed bank deposits, it immediately interfered in a potential failure in one of the local banks (the Gulf Bank) as a result of international derivative transactions by a few of the Gulf Bank's clients.

The implications were not similar to those of the Souk Almanakh unregulated market, but it was a significant crisis under the regulations and oversight of the KSE Market Committee (the antecedent capital market regulator). However, this economic crisis was not limited to the capital market alone, but also extended to oil prices. As Figure 3 illustrates, from June 2008 to March 2009, the stock market lost 51% of its market capitalisation (IMF, 2010, p. 28) and international oil prices dropped from US\$140 to US\$45.

In 2010, due to international, political, and public pressures, a law was enacted to change the regulatory framework of the capital market by creating a specialised regulatory body (see Section 6.4). This body was empowered to re-regulate all capital market activities, including corporate audit, and align its regulatory practices with international best practices. Unlike the 1983 reform that reinforced the involvement of the Ministry of Commerce in regulating the capital market, the new capital market regulator, although under the Minister of Commerce's parliamentary responsibility, fought to expel the influence of the Ministry of Commerce, as we will see in a following chapter (see Section 7.2).

### **3.8. Chapter conclusion**

In this chapter, I provided a summary of Kuwait's broader social system. I started by illustrating general demographic information and the social structure

of Kuwait. Then, I demonstrated the Kuwaiti system of social classifications, underpinned by blood-lines and ideological reasons. I explained the particularities that make Kuwait a unique social system in comparison to its surrounding Arab neighbours: historically powerful merchant families coexisted alongside the royal family and a parliamentary system with the power to confront the non-elected government. I also tried to explain salient historical events that created such distinctiveness.

I enumerated notable historical events that drove the making of contemporary Kuwait, starting from the interference of Britain in Kuwaiti affairs through the signed protection agreement to protect Mubarak/Kuwait from the Ottoman threats. Nonetheless, Britain interests in the region and Kuwait changed after the discovery of oil. The relationship between the royal family and merchant families also changed. Merchant groups started to learn from the Anglo-American oil consortium how to manage capital activities in a local tax-free environment.

Oil changed the Kuwaiti governance system, and the ruling system started to exclude historically powerful merchants from decision-making. Merchants, in turn, demanded that the governance system be democratised. However, as the government tried to compensate merchants for their exclusion with monies, only in the 1960s were the merchants' plans achieved. I provided varying views on why Britain granted Kuwait its independence in foreign affairs. The Kuwaiti constitution, unchanged from 1962 to today, became the platform for organising the country's social structure.

Parliament became a battlefield between different social groups. Each social group, as well as the government, tried to advance their own interests. The government role became an instrument to balance these interests without threatening order and the hierarchy of power. The government maintained its symbolic power and accumulated political power not through efficient administration but often by "constructing" the loyalties of (some) parliament members as well as locals with high social capital to confront and handle societal disturbance. Merchants and other social groups often influenced

government choices by infiltrating bureaucratic agencies and occupying senior official positions.

I also explained the Kuwaiti economic system. Even today, around 90% of Kuwait's revenues are from selling state-owned and controlled oil. Another source of revenue, with details unknown to the public, is the Kuwaiti sovereign investment fund. Kuwait's economy faced significant budgetary deficits over the last five years and the general reserve fund that the government relies on to fund its capital shortages is expected to be depleted in the coming few years.

Merchants groups depend on the government to accumulate economic wealth and maintain their symbolic social status. The public tendering system is the main central arrangement for state wealth distribution. On the one hand, merchant groups employ various political strategies to pressure the government to distribute economic wealth by offering them large government contracts. These strategies include, for example, from direct pressure to the building of public opinion on the need for new construction. On the other hand, the government engages in political and economic trade-offs and uses the political support of various groups (including the merchants) to impose its vision of reality (ruling vision, hierarchical positions, and power) on society.

In the last part of this chapter, I focused on the Kuwaiti capital market. Stock trading and oversight used to be under the sole authority of the Ministry of Commerce. However in 1983, with the Souk Almanakh crisis, the stock market witnessed its first reform. A market committee was created to regulate and oversee stock trading. However, although this reform included various actors (other financial regulators and representatives of the merchants) who participated in the changed regulatory system, the Ministry of Commerce continued to chair this committee (see Section 6.2.4).

The second and most recent reform constrained the direct interference of the Ministry of Commerce. In Kuwait, the 2008 crisis was not a result of Kuwait's exposure to the US market. The market performance bubble was mainly due to the Iraq invasion (business opportunities offered by the US army to Kuwaiti companies), high oil prices which often stimulate the capital market position,

weak regulatory oversight, and corporate mismanagement. The 2010 reform empowered a specialised body to re-regulate the capital market based on international best practices.

The following chapter explains the theoretical framework of this thesis.





## **4. THEORETICAL FRAMEWORK**

### **4.1. Introduction**

The intention of this chapter is to develop a theoretical framework to guide my data analysis to help understand the modernisation project of audit regulations in Kuwait. As I am interested in understanding the dynamic of power in implementing international-driven audit regulations, I found two theories very useful to provide me a perspective--first, Pierre Bourdieu's theory of practice (including his theory of the state). Second, Terence Halliday and Bruce Carruthers' theory of recursivity.

The purpose behind the adoption of two theoretical lenses is that I found Bourdieu's practice ideas beneficial in understanding struggle in the production and consumption of audit regulations. Nonetheless, Bourdieu's practice theory, if adopted in a similar fashion to that of the accounting literature, does not tell much about the interaction between government fields as well as the power of the state. For that reason, I found Bourdieu's works on the state, which underpin practice philosophy, are very useful for providing a better and more comprehensive understanding of the dynamic of power within a society.

In the contemporary globalised era, to explore the struggle between national-state and transnational forces, I found Halliday and Carruthers' work on the transnational processes between the global and the local is extremely beneficial. I believe Halliday and Carruthers' work complements gaps in Bourdieu's framework (due to his death) to include the influence (and process) of transnationalism on the dynamic of power in the social space. Both theoretical lenses provide me with a powerful framework to unpack the complexity of modernising traditional practices in Kuwait.

The structure of this chapter is as follows. From the micro to the macro, the first part explores Bourdieu's sociological notions on individual practices in the social space. Accordingly, a holistic explanation of Bourdieu's practice ideas will be provided. The second section of this chapter explains Bourdieu's theory

of the state. Bourdieu's understanding of the state may be divided into three parts. First, a historical examination of the transformation from feudalism to bureaucracy. Second, ideas on how the state maintains its power through physical and "symbolic" violence. Third, the dynamic of the bureaucratic field.

It is worth noting that although Bourdieu's state theory underpins his theory of practice, I found difficulties in combining the two relatively large and complex ideas. For that reason, I decided to explain them in separate sections without neglecting their interrelation.

The last section of this chapter explores Halliday and Carruthers' recursivity framework. I intend to explain the recursivity theory in full. Additionally, as I am immersed in Bourdieusian perspectives, I aim to reflect on recursivity ideas using Bourdieu's practice philosophy, which includes the state. However, in every section, I will start by introducing the theorist and conclude with scholarly critiques on the theories. The last part of this chapter provides concluding remarks.

## **4.2. Bourdieu's theory of practice**

### **4.2.1. Introduction**

Pierre Bourdieu (1930-2002) was a French philosopher, anthropologist, sociologist, and public intellectual. The origin of Bourdieu's scholarly work is interesting. He studied philosophy and worked in academia in France for one year before he was conscripted by the French army. In 1955, Bourdieu served in Algeria (army support function) during the Algerian-French War (1954-1962). After his three years of compulsory service, before returning to France, Bourdieu took an academic position at the University of Algeria from 1958 to 1961 (Silverstein and Goodman, 2009, p. 12).

During his time in Algeria, Bourdieu carried out an ethnographic study on *Kabyle* tribe culture. In 1958, Bourdieu produced his first work *Sociologie d'Algerie* (sociology of Algeria) on the objective structure of Algerian society from an anti-colonial position (Silverstein and Goodman, 2009, pp. 12, 18). Later, during his job in Algeria, Bourdieu produced a couple of studies on

Algeria with his first sociologist assistant and co-author, Abdelmalek Sayad (Silverstein and Goodman, 2009, pp. 30-2).

Bourdieu's book *Outline of a Theory of Practice* (1972) (first English translation in 1977) was the first formulation of his practice *master* concepts that developed and reached maturity in his book *The logic of practice* (1980) (first English translation in 1990). Bourdieu's theoretical foundation, according to Silverstein and Goodman (2009, pp. 3-6, 18), was influenced by his time in Algeria, his anti-colonial ideas, the ethnographic approach of his first works (Algerian studies), as well as collected ethnographic data from the Kabyle people. However, probably because Bourdieu's theoretical ideas were influenced by different cultures (Arab-Algeria, Berber-Kabyle, and Western-France), in addition to his underlying combination of objective-structure and subjective-disposition, his theory of practice has been considered, for example, by Robbins (2002), as universal and flexible as to space and time.

In the accounting literature, Bourdieu's ideas have been followed since the 1990's (Malsch et al., 2011) and probably the number of studies that have adopted Bourdieusian perspectives are on the rise. It could be argued that nowadays, Bourdieu is a well-known figure for non-mainstream accounting scholars. Malsch et al. (2011) for example, analysed accounting studies that used Bourdieu's notions from 1999 to 2008, arguing that using Bourdieu's work has made a significant contribution to accounting knowledge. Similarly, Everett (2018) examined accounting studies that applied Bourdieu's holistic concepts and argued that these studies made a substantial contribution to the critical accounting literature (also see Section 2.4).

#### **4.2.2. The praxeology of Pierre Bourdieu**

Before explaining Bourdieu's *practice* theorisation, it is appropriate now to explain Bourdieu's methodological position. Bourdieu is relatively vague with regard to his philosophical assumptions. He refers to his work as "constructivist

structuralism or of structuralist constructivism” (Bourdieu, 1989, p. 14)<sup>25</sup>. This fuzziness in combining and linking objective structure with subjective disposition, according to Bourdieu is “irreconcilable” and “fruitful” to find the “truth of social world” (Bourdieu, 1989, p. 22) and the “truth of human practice” (Bourdieu and Wacquant, 1992, p. 10). On the one hand, for Bourdieu (1989), structuralism is conscious and unconscious “objective structures” that guide and constrain practice. On the other hand, constructivism is twofold of *habitus* and *social structure* (Bourdieu, 1989, p. 14).

If I want to position Bourdieu’s philosophical assumptions on the Burrell and Morgan (1979) quadrant paradigms of research philosophy, and disregard the vertical line that separates the two radical positions as criticised by, for example, Hopper and Powell (1985), I would station Bourdieu in the top-middle that combines both “*radical humanist*” and “*radical structuralist*” paradigms (see Figure 4 and Sections 5.2.3, 5.2.4). Even though Bourdieu in many investigations relies heavily on codification, numbers, and statistics, I believe it is the purpose of research that defines philosophy, not merely evaluation based on methods. In other words, Bourdieu’s reliance on big data is to develop a “general” theory.

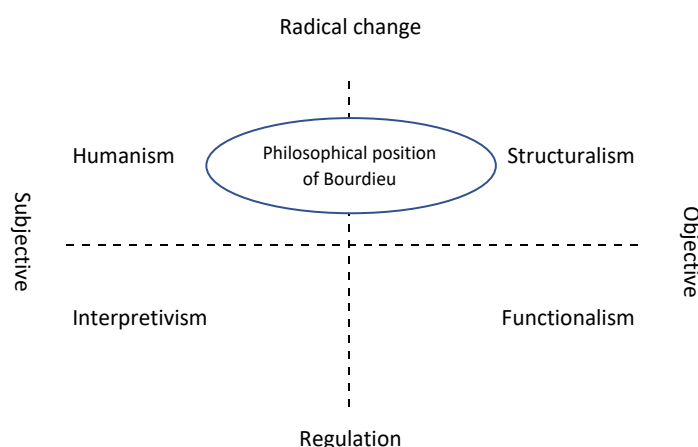


Figure 4: Bourdieu’s position based on Burrell and Morgan (1979) philosophical paradigms

<sup>25</sup> This contradicts Burrell and Morgan’s (1979) objective-subjective separation (see Section 5.2).

One of the reasons behind positioning Bourdieu in this philosophical spot is his ontological realisation through employing objective structure to unpack structural conflicts, modes of domination, and unconscious practices. In short, the Bourdieu logic of practice is a logic of social domination (Friedland, 2009). For Bourdieu, the symbolic system between social and mental structures is an instrument of power (Bourdieu and Wacquant, 1992, p. 13). All these assumptions about the nature of society (social process) underpin Bourdieu's position as a *radical* based on the philosophical categorisation of Burrell and Morgan (1979).

#### **4.2.3. Bourdieu's theorisation of praxis**

Bourdieu is interested in "power" that mediates the symbolic structure of society at both the individual and societal levels (Everett, 2002). Similarly, Friedland (2009) argues that "power" is the central interest of practice and social dynamics in Bourdieu's theory. To understand human disposition and practice, Bourdieu created an objective structure of the social world. The objective structure is represented in semi-autonomous fields; actors in any field struggle to compete for domination and power.

Bourdieu's understanding of the state is as yet underutilised in the academic accounting literature. For Bourdieu (1989), the state is the source of societal common sense, the bank of symbolic power, and the holder of legitimate physical coercion and symbolic violence. In a later section, I will outline how Bourdieu theorised the state and how the state encounters social practice.

Bourdieu has seven "main" interrelated master concepts that formulise his objective-subjective structure (practice theory): field, capital, habitus, the field of power, and taken for granted concepts (illusio, doxa, and symbolic violence). These interrelated theories guide actor practices. Each of these concepts is explained separately but I will also explain the links between them.

##### **4.2.3.1. Field**

To define the relationships, forces, and practices between individuals and groups in any social space, Bourdieu uses the objective concept of *field(s)* to

structure social space. Bourdieu describes a field as “space of objective relations between positions defined by their rank in the distribution of competing powers or species of capital” (Bourdieu and Wacquant, 1992, p. 114). A field is the platform of struggle that Bourdieu’s practice notions settle on. A site for interactional struggle between positions and the type of struggle depends on the occupied position (based on capitals) as well as actors’ conflicts to preserve or change the structure of a particular field (shape and division)<sup>26</sup>.

Every field has a position (in terms of its social importance) in the broader social sphere as well as the field of power that sits at the top of social space (details on the field of power are provided in Section 4.2.3.3). The more important field(s) affects another field(s) and constrains or shapes the way each operates. In other words, fields are not autonomous; they are influenced by the logic of other fields.

For Bourdieu, all hierarchical struggle is to reach the top of a field. However, actor domination strategies and disposition (*habitus*) depend on the actor’s position within a field and the level of recognised weapons (capitals) s/he holds as well as the accumulation of significant, specific capital(s); these vary depending on the field. That said, being at the top of an important field means the ability (if one has the interest) to enter the field of power. For Bourdieu, field, capitals, and *habitus* are relational because they all operate simultaneously.

#### **4.2.3.2. Capitals**

Depending on the logic (structure) of a field and the actor’s position within a field, for an actor to compete (play the game), s/he needs weapons. Within a field, accumulation of weapons is the source of engagement and competition for the field profit (to dominate). For Bourdieu, these arms are capital. Capitals define an actor’s position and are the means to exercise power over a field.

---

<sup>26</sup> For Bourdieu, changing the structure of a field is accomplished through changing the distribution and weight of capitals, and for important fields, this is done by the field of power (Bourdieu and Wacquant, 1992).

Bourdieu (1986) argues that capital is accumulated labour, and the collection occurs in two forms, materialised or embodied. Bourdieu (Ibid, pp. 15-6), draws his perception on the mechanism of capital (power) in any field from the economic theory (capitalism), arguing for two levels of convertibility to monetary profit. Capital with immediate conversion (economic capital), and capital with restricted convertibility (cultural and social capital). Restriction relates to the condition(s) operating during the conversion into economic capital. As in every field, some capitals outweigh others, the structure of distribution of capital(s) representing the structure and function of a field. Bourdieu established many types of capital. The fundamental powers are four: economic, cultural, social, and symbolic capital.

### *Economic capital*

Economic capital is the form of material wealth (money and money institutionalised in other forms). Bourdieu (1986) perceives economic capital as the purpose of agent practice for domination and power. He argues that all capital can be derived from economic capital, and all capital can be transformed into economic capital. Transformation of capital(s) into economic capital could be in the short or long term and depends on the establishment and maintenance of other capitals, the cost of investment, and the time lag of conversion.

For Bourdieu, the time spent on the accumulation of social and cultural capital, although it could be perceived as pure waste, is an investment that will yield in the long term (Bourdieu, 1986, p. 25). Capital transformation is the strategy of capital reproduction. For Bourdieu, in any field distinguished capital is the one that converts to economic capital in the easiest, fastest, and least risky ways. Hence, for Bourdieu, accumulation of economic capital is the dominant form of power (Friedland, 2009, p. 902).

### *Cultural capital*

Cultural capital is a form of power of competence. For Bourdieu, cultural capital is “a media for power, not its content” (Friedland, 2009, p. 903). Bourdieu



(1986) argues that cultural capital should be understood beyond the functionalist perception of human capital theory<sup>27</sup>. Cultural capital donates to economic capital which also (indirectly) helps to reproduce the social world (Emirbayer and Johnson, 2008). And, dominants reproduce cultural capital to distinguish themselves (Friedland, 2009). For Bourdieu, cultural capital is of three kinds: embodied, objectified, and institutionalised.

Embodied cultural capital is the knowledge and skill that influence the way an actor thinks and acts (Everett, 2002). This include actors' physical appearance (dressing, eating, walking) that is animated by knowledge. In other words, Bourdieu (1986) defines it as external wealth that is converted into actor habitus, but this transformation is not immediate, it is unconscious and depends on social conditions and field structure. It has the same characteristics as symbolic capital; it is "unrecognized as capital and recognized as legitimate competence" (Bourdieu, 1986, p. 18).

Objectified cultural capital is a material object of cultural goods such as writing, instruments, and machines. For Bourdieu (1986), this classification of cultural capital relates to embodied cultural capital and economic capital. For example, to possess a material good, an actor or group of actors needs economic capital. To use the object with its specific purpose, embodied cultural capital is required either by the possessor(s) or another actor(s). Bourdieu argues if the actor(s) does not own the material object but profits from their cultural capital or any particular type of capital by selling services that make the means of production of the material object possible, they will be classified as a dominant group which extends their embodied cultural capital. Such material and symbolic activity are used as weapons to battle in the field of cultural production and class division (Bourdieu, 1986, p. 20).

---

<sup>27</sup> Bourdieu (1986) criticised human capital theory as narrow rationality based on the direct calculation and relationship between monetary investments and profits without taking into consideration important factors such as different chances of profit related to the social class of an actor (class-division). This includes the reproduction of the education system to the social structure, previous investments of cultural capital by the family, and the importance of social capital in cultural yield.

Institutionalised cultural capital relates to institutional recognition of cultural capital. This could take the form of an academic institution that certifies the educational competence of its holder, or the cultural power of an actor working in a recognised institution. Bourdieu (1986) argued that institutionalising differences between agent(s) competence and cultural capital imposes institutional recognition. Such recognition creates different conversion levels between cultural to economic capitals. Besides, the material and symbolic value of the institutionalised cultural capital depends on demand and the structure of the field.

### *Social capital*

Social capital is an individual social network. Bourdieu argues that the structure, mechanism, and the shape of social capital is different in each society. For example, in some societies, social capital is shaped by political capital which is a source of utility similar to economic capital in other societies (Bourdieu and Wacquant, 1992, p. 119).

Elaborating more on social capital, Bourdieu (1986) defines social capital as the collection of a durable network of relationships. Social capital is exchanged and maintained through material and/or symbolic profits of institutionalised relationship. This also includes the name (family, tribe, social class etc.), neighbours, and relatives. For Bourdieu (1986, p. 28 [17]), social capital goes without saying and has a governance logic similar to symbolic capital (symbolic capital is explained in the next section).

Bourdieu (1986) explains that social capital is never completely independent of economic, cultural, and symbolic power. Likewise, social capital is the product of investment strategies: individual or collective, conscious or unconscious, to benefit from in the short or long run. For Bourdieu, the reproduction of social capital is often done through investment in competence.

### *Symbolic capital*

Prestige and reputation are examples of symbolic capital. For Bourdieu, symbolic capital is “world-making” and the “power of constitution” (Bourdieu,

1989, p. 22). Bourdieu (1989) put it in this way: “Symbolic capital is a credit; it is the power granted to those who have obtained sufficient recognition in a position to impose recognition” (p. 23). Symbolic capital is the most recognisable form of power between actors with a dominant position in a field (Everett, 2018)<sup>28</sup>.

To further explain symbolic power, capitals (economic, social, capital) convert into symbolic capital when they are considered, recognised, and legitimised by actors as a valuable capital (Bourdieu, 1989, 1994). People adapt to such domination logic and “misrecognise” symbolic power as a source of capital (Everett, 2018). Symbolic capital influences the way a field operates through intervening individual habitus (Bourdieu, 1986, p. 27 [3]).

These explanations demonstrate that all capitals are interrelated, interconnected, and convertible to one another. Simultaneously, the conversion level and the type of possession and accumulation depend on the field structure in which the actors engage (Everett, 2002). The next section discusses Bourdieu’s theorisation of the field of power.

#### **4.2.3.3. The field of power**

Bourdieu theorises that to dominate a field, an actor accumulates the maximum amount of power that is most appreciated by a field (accumulation is direct or indirect through conversion from and to other capitals). Therefore, actors at the top of an important field occupy (if they have the interest) a position in the field of power.

The field of power is a sort of meta-field. Bourdieu argues that the power field is determined by power relationships among the holders of the dominant positions of important social fields with different positions *vis-à-vis* the field of power (Bourdieu, 1996, pp. 264-5, 271-2), including the bureaucratic and economic fields. This also means that the structure of various social fields is linked *vis-à-vis* the field of power (Everett, 2018).

---

<sup>28</sup> Emirbayer and Johnson (2008, p. 13) argue that symbolic capital (authority) is often attached to the establisher of a field.

Unlike social fields, in the meta-field of power, each actor employs different strategies to maintain or enhance the legitimacy of her/his dominant position in a specific field as well as the actor's position in the broader social space. Bourdieu and Wacquant (1992, p. 99-100) conceptualise the field of power as one of sacrifices and struggle; indeed it is. Bourdieu put the conflict within the field of power in this way:

This struggle over the power to dictate *the dominant principle of domination*, which leads to a constant state of equilibrium in the partition of power, in other words, to a *division in the labor of domination* (as times intended and conceived as such, and explicitly negotiated), it also a struggle over *the legitimate principle of legitimation* and, inseparably, the legitimate mode of reproduction of the foundations of domination (Bourdieu, 1996, p. 265).

The fight within the field of power is often between two positions (one group with high economic capital and low cultural capital and the other with high cultural capital and less economic capital) aiming to legitimise their domination over social fields. The struggle is partially or wholly related to strategies of (re)defining dominant capitals as well as the conversion/exchange rate of different capitals (cultural and economic capitals in particular) in various fields. The sacrifices relate to actor gains, concessions, and compromises of power to maintain or enhance their symbolic position and domination in social space (Bourdieu, 1996, p. 265).

Swartz (2008) explained Bourdieu's field of power as a representation of the power of the ruling class within a society. However, as I will explain in more detail the relationship between the field of power and the state in Section 4.3.4, Bourdieu (1994) argues that actors in the field of power struggle over the state's power to dominate society and the social order. In other words, many of the fights in the field of power aim to control the power of the state; that is, over the statist capital "that enable the state to wield a power over all games and over the rules that regulate them" (Bourdieu and Wacquant, 1992, p. 100)<sup>29</sup>. Hence there is a kind of constant struggle between the field of power and the state. The field of power battles to control or reduce the state's

---

<sup>29</sup> Statist capital is explained in Sections 4.3.3 and 4.3.4.

domination power (Swartz, 2008) and the state struggles to dominate the field of power (Swartz, 2013). Now I move to explain Bourdieu's theorisation of habitus.

#### **4.2.3.4. Habitus**

For Bourdieu, habitus is:

[S]ystems of durable, transposable dispositions, structured structures predisposed to function as structuring structures, that is, as principles which generate and organize practices and representations that can be objectively adapted to their outcomes without presupposing a conscious aiming at ends or an express mastery of the operations necessary in order to attain them (Bourdieu, 1990, p. 53).

[T]he strategy generating principle enabling agents to cope with unforeseen and ever-changing situations . . . a system of lasting and transposable dispositions which, integrating past experiences, functions at every moments as a matrix of perceptions, appreciations and actions and makes possible the achievement of infinitely diversified tasks (Bourdieu (1977), cited in Bourdieu and Wacquant, 1992, p. 18).

Emirbayer and Johnson (2008) provided a more simplified definition to Bourdieu's concept of *habitus*;

[T]he habitus is a mechanism linking individual action and the macro-structural settings within which future action is taken. The habitus also links past fields to present fields through the individual actors who move from one to the next (p. 4).

Habitus is a powerful tool to link macro and micro approaches (DiMaggio and Powell, 1991b cited in; Emirbayer and Johnson, 2008). It is the incorporation of actor disposition to the social structure (Friedland, 2009).

An actor's habitus is not limited to a specific field, but revolves as agents interact with external (other) fields (Bourdieu and Wacquant, 1992). This means that participating in different fields also affects how an agent thinks and acts in a specific field, interactively. Hence, *habitus* represents continuous and changing mental and physical actions and reactions in any given field.

To simplify these complex definitions on a single field, *habitus* is the way an actor thinks and acts based on her/his historical, continuous, and changing physical and embedded capitals, taken-for-granted beliefs, social processes,

field structure and mechanism. It also includes an actor's position and interaction in various fields. *Habitus* is a disposition to cope and (re)act in different situations.

The next sections will cover the last part of Bourdieu master concepts: the system of taken-for-granted. This includes *illusio*, *doxa*, and *symbolic violence*.

#### **4.2.3.5. Concepts of taken-for-granted**

Field, habitus, and capitals are all relational and not independent of each other. On the one hand, *habitus* is the operator of the objectified field(s) along with its structure and dynamics. Similarly, capitals also participate in structuring the *habitus* (and vice versa), which depends on an actor's position in and the dynamic of a field. On the other hand, taken-for-granted beliefs (the unspoken rules) affect actor *habitus*, capitals, field structure, actor position, and respectively, the rules of the game in any field. Friedland (2009) argues that practice and the way the social world is organised is through taken-for-granted concepts, thoughts of the "naturalized world of everyday life" (p. 888). Bourdieu differentiated between three salient types of taken-for-granted concepts as follows.

##### *Illusio*

*Illusio* is a specific interest in the rewards of a field. *Illusio* (interest) goes automatically with a field. This means that an actor "only" enters a field if s/he has interest in the rewards a field may offer. In other words, entering and being in a field makes a difference that matters for an agent to pursue it (Bourdieu and Wacquant, 1992). The type of benefits (profits) differ between fields and depend on the agent *habitus*, capitals, and position in the field, and the rewards that are pursued.

##### *Doxa and symbolic violence*

*Doxa* is common sense. According to Bourdieu and Wacquant (1992), it is accepting the world as it is. *Doxa* is not about the soundness of common

sense, but radical belief in the social rules and structure. Nonetheless, such a belief produces symbolic violence.

Symbolic violence is not physical violence. For Bourdieu symbolic violence “is the violence which is exercised by a social agent with his or her complicity” (Bourdieu and Wacquant, 1992, p. 167). Such violence is misrecognised and is not perceived as constraining an agent’s freewill. The word symbolic is included in this concept because such violence is a result of symbolic domination. Symbolic domination does not mean the influence of the dominant class or agent(s) but accepting, reasoning, or belief in the dominant structure of the social world and social order because agent perception is constructed according to these structures (Bourdieu and Wacquant, 1992). That is why, for Bourdieu, *doxa* and symbolic violence are relational.

For Bourdieu (1989), as I will demonstrate in a following section, “the state is the repository of common sense” (p. 22) and “the holder of the monopoly of the legitimate symbolic violence” (p. 22). It is worth noting that state power in (re)shaping practice is underutilised by many Bourdieusian scholars. The next part concludes Bourdieu’s practice theory and I then move on to explain Bourdieu’s theory of the state.

#### **4.2.4. Concluding Bourdieusian practice**

In this section, I explained my understanding of the Bourdieu’s theory of practice by going through many of his original (in English translation) works. I explained Bourdieu’s master concepts. However, as Bourdieu is a popular figure in the accounting literature, there are some variations in understanding and interpreting his ideas. One of the most sophisticated concepts is *symbolic violence*. Some, for example, Stringfellow et al. (2015, pp. 92), mistakenly argue that banks’ preference for the Big 4 and not small firms is a form of symbolic violence over non-dominant actors. For Bourdieu, symbolic violence, as I mentioned earlier, is a deeper structural condition than mere competition for capital within the economic field. It constrains the self because of an incorporated social system and structure that restrains individual freewill, but with her/his “complicity”.

Bourdieu theorisation of practice is not without limitation. One of the main criticisms of Bourdieu theoretical framing is the exclusion of “sentiment” from his social scheme (Friedland, 2009, pp. 896-7). Arguably, dismissing “emotions” (as they are challenging to codify/objectify for power purposes) is an attempt to “generalise” a road map to understanding social world and practices. I see another drawback that is related to linking “all” actor disposition to economic capital: actors’ continuous struggle to transcend in a field. I think, even in Western societies, not all behaviours are conditioned to be converted to economic power, similar to the findings of Spence et al. (2017) in Japan (see Section 2.4.1). Likewise, actors do not compete for domination in all fields. The risk with such rationalisation is (re)inforcing these capital (competitive) ideas in societies.

According to Friedland (2009), in any field, explicit rules only get involved when a disposition cannot meet the practices that are required by the social structure. Bourdieu (1994) argues that the state is a powerful field that imposes rules explicitly (through regulations) and implicitly through their monopoly of social space. Also, it has a permanent position in the field of power, as well as significant power to (re)produce the dynamics and structures of all social fields to control specific order (Bourdieu and Wacquant, 1992, p. 100).

The next section discusses Bourdieu’s thoughts on the state.

### **4.3. Bourdieu and the state**

#### **4.3.1. Introduction**

Bourdieu considered the power of the state in forming social practice from his early writings (Swartz, 2013, p. 124-5). However, only after he completed his practice philosophies did he start to theorise about the “state”. Bourdieu began to consider the state in his book *The State Nobility: Elite Schools in the Field of Power* (1996 [1989], pp. 371-89), but arguably, in his housing policy study, *The social structures of the economy* (2005 [2000]), the state was at the centre of his investigation. Bourdieu started to produce scholarly works dedicated to explaining the state. His major works on the subject include *On the State:*



*Lectures at the collège de France 1989-1992* (2014 [2012]), *Rethinking the State: Genesis and Structure of the Bureaucratic Field* (1994), *From the King's House to the Reason of State: A Model of the Genesis of the Bureaucratic Field* (2004), and *The social structures of the economy* (2005 [2000]).

It is worth noting that Bourdieu's understanding of the state is as yet underutilised in the academic accounting literature. To my knowledge, very few accounting studies considered Bourdieu's theory of the state (e.g., Cooper et al., 2019; Spence et al., 2019). Probably, except for Loïc Wacquant (a Bourdieu co-author) and David Swartz (an American sociologist specialised in Bourdieu's work), none attempted to provide a holistic explanation of Bourdieu's theorisation of the state, which I intend to offer in this section.

Bourdieu challenged the taken-for-granted notions that the state is merely “symbolic” and focused on the symbolic dimension of the state in relation to his theorisation of the field of power as well as his taken-for-granted master concepts, especially *doxa* and symbolic violence. This position has helped Bourdieu to provide a different perspective on the state than those of Michel Foucault, Norbert Elias, and Max Weber (Swartz, 2013, pp. 126-7, 129). What Bourdieu tried to achieve is to explain why and how the “state” legitimised its monopoly not only on physical violence over specific territory and people as Max Weber theorised, but also *symbolic* violence.

Bourdieu's work on the state could be categorised into three parts. First, the genesis of the bureaucratic state and the reproduction of the field of power, which I will briefly cover. Second, the process of concentration of different (interdependent) species of capital. Finally, the internal struggle within the bureaucratic field to impose its vision of reality to win symbolic profits. I will follow the same classification in this section.

#### **4.3.2. The genesis of the bureaucratic-state**

In his work, *From the King's House to the Reason of State: A Model of the Genesis of the Bureaucratic Field*, Bourdieu started analysing the historical process of transforming the logic of capital accumulation from the King's royal

power to what became the power of the state (from dynastic royal power to the bureaucratic public state) (Wacquant, 1993, pp. 40-2). Bourdieu (2004) provides a historical exploration focused on the dynastic system and the political shift to bureaucracy in Western Europe (especially France and England) until the mid-seventeenth century, when the bureaucratic state started to become a social reality.

I wish to be concise in explaining the detailed reasons behind the diminishing of dynasticism. In summary, Bourdieu (2004) argued that in France and England, many (interrelated) reasons were behind the political transformation that empowered “bureaucracy” which resulted in a simultaneous reproduction of the field of power. First, the division of labour of domination and the reconfiguration of the education system. Second, lengthening the chain of authority within the dynastic system. Third, the implementation of Roman Laws that influenced judicial interest in the public interest by which the public, in return, empowered the judicial system with the capacity to change things. Finally, the construction of political authorities. For Bourdieu, there is no one reason for the political shift from dynasticism to bureaucracy. The logic behind the genesis of the modern bureaucratic state is to separate the public interest from the private interests of the King<sup>30</sup>.

#### **4.3.3. The process of concentrating different (interdependent) species of capital in the state**

In his study *Rethinking the State: Genesis and Structure of the Bureaucratic Field*, Bourdieu (1994) tried to unpack the logic of the process of state concentration of different species of powers. For Bourdieu (1994), the bureaucratic state is:

[A]n X (to be determined) which successfully claims the monopoly of the legitimate use of physical and symbolic violence over a definite territory and over the totality of the corresponding population (Bourdieu, 1994, p. 3).

---

<sup>30</sup> Contemporary differences between England and France include that the former follows Common Law, while France adopted the Civil Law system. This significant difference probably arose because France, unlike Britain, abolished their monarchy.

Bourdieu (2014, pp. 34-6) distinguished between two meanings of the “state”, state 1 (i.e., the government, which Bourdieu refer to as the bureaucratic field) and state 2 (i.e., the entire territory, including state 1), which grants authority to state 1. For Bourdieu, state 1 (the bureaucratic field), has a significant power to produce and impose categories of thought that most people apply (in state 2), including the state 1 (bureaucratic field).

The bureaucratic field becomes a meta-field that controls different state *capitals* as well as holders of these capitals. The concentration of different types of powers in the bureaucratic field (paralleled with the construction of corresponding bureaucratic fields) lead to the emergence of *statist capital*. *Statist capital* enabled the state to monopolise social spaces as well as influencing the *habitus* of social actors. That said, the emergence of the state, for Bourdieu (1994), paralleled the reconstruction of the field of power. And the field of power became a site of struggle over, especially, the state’s power (statist capital) to control the totality.

Bourdieu theorised five (interrelated) powers that enable the bureaucratic field to legitimise and dominate the state monopoly over symbolic (re)production of its *symbolic* rule. These capitals are: coercive power, economic capital, informational capital, juridical power, and symbolic capital.

#### **4.3.3.1. State physical power**

The monopoly for using coercive power (the army and police) become concentrated in the bureaucratic field, mainly to maintain social order and to undermine the *lords’* warring function (Bourdieu, 1994). The emergence of the bureaucratic state influenced the nobility to abandon the war function and join universities, take positions in the bureaucracy and the courts (Bourdieu, 2004). According to Bourdieu (1994), the emergence of the bureaucratic field justified the concentration and control of physical force for two main reasons. First, creating an army to advance state (land) *expansion* interests as well as to protect its territories from the threats of foreigners. Second, for *defense* against the internal threats of the King’s entourage--the army was used for “inter-state competition”, and police for “intra-state order”. However, the state, as long as

it can produce a cognitive structure that agrees with its objective structure, does not always have to exercise its coercive abilities to produce social order.

#### **4.3.3.2. State economic capital**

The concentration of physical force is paralleled with the creation of a fiscal system to cover expenses. This is unlike the logic of economic power in the dynastic state where levies are accumulated and converted to the symbolic status of one person, the King. Under a bureaucratic regime, the logic of the concentration of economic capital is to control expansion and defense (against the King's entourage as well as for coercive power over the collection of taxes). However, the legitimacy of the tax institution is, as Bourdieu (1994, p. 6 [9]) argues, related to how these "public" monies are used--for public expenditures instead of the King's usage, which was to satisfy his competitors. Also, the legitimacy of the tax institution (as it is interdependent on coercive and symbolic recognition) is related to the dignity of collectors, and various "accounting" tools were implemented and recognised.

Bourdieu (1994, p. 7) argues that the legitimacy of the tax institution (rooted in defence needs) contributed to the rise of nationalism (as these monies are also used for societal interests) which eventually constructed the reality of the *unitary territory* of the state.

#### **4.3.3.3. Informational capital**

Bourdieu (1994) is of the view that the concentration of state informational capital is linked to state concentration of economic capital, mediated by the tax institution. With the bureaucratic claims for taking care of the totality, surveys and census helped the state to accumulate knowledge. However, codification (e.g., official forms) and classification (e.g., sex and age) through bureaucratic communications and procedures influenced the mental structure of the individual to inculcate a common vision and division that legitimised national culture. In other words, the unification of culture and language rationalise and legitimise the authority of the state to impose and inculcate social realities and reshape the mental structure of a nation.

#### **4.3.3.4. Autonomous juridical capital**

Unlike, for example, state economic capital, judicial power has its own logic. Bourdieu (1994) explained the genesis of the Western juridical system and how the symbolic power of this field contributed to the power of the bureaucratic state. The creation of the juridical apparatus was a result of the King's involvement beyond his royal domain; that is, in society. Under feudalism, feudal courts used to be sovereign, and *supplication*, according to Bourdieu, turned to *appeal procedures*, where appeal cases were decided by a hierarchy (lords, dukes, and counts) that ends with the King, not judges or juries. This system concentrated juridical power with the King. This model gave independent authorities for jurists and their field.

Given the jurists' interests in the kingdom, it legitimised all the King's activities that represent people justice and security (Bourdieu, 1994, p. 10). Slowly, over time, it enhanced the competence of its field through changing self-appointed jurists to professional ones. Later, it stripped the kingly entourage by supporting royal "competent" jurisdiction over lords and churches. The creation of the bureaucratic structure was alongside jurists' construction of their autonomous fields. However, with the rationalisation and legitimisation of state power, the reproduction of the juridical field become subject to the state (Bourdieu, 1994).

#### **4.3.3.5. Symbolic power of the state**

The symbolic power of the state as per Bourdieu (1994) is a correlation of various concentrations of capitals. Symbolic capital, in the bureaucratic field, is any form of power that is recognised by social agents "through categories of perception that are the product of the embodiment of divisions or of oppositions inscribed in the structure of the distribution of this species of capital" (p. 9). For Bourdieu (2014), the bureaucratic field (state 1) is the "central bank of symbolic power" (p. 217) as everything (directly or indirectly) becomes connected to the state. For Bourdieu the state's ability to monopolise different forms of capital contributed to its symbolic power. Nonetheless, another significant logic that

contributes to state domination of symbolic violence is people's *doxic* submission to the state ability to nominate.

### *State nomination logic*

As I mentioned earlier, in England and France, the bureaucratic logic of the symbolic power of the state as argued by Bourdieu (1994, 2004, 2014), was rooted in the (re)production of juridical capital. The state started to accumulate and maintain its symbolic status via the concentration of various species of capital. The state's nomination power is one of the authorities that the holder of state power uses to control the entire society. Nomination takes the form of empowering religious authorities, titles of nobility, or even the appointment of officials (Bourdieu, 2014). Nomination is a form of classifying the totality (nobility from commoners, and ranking and control within nobility and commoners).

For Bourdieu, *nomination* is a mysterious and magical logic that owed its position to different species of capital (Bourdieu, 2014, p. 374). For example, the shift from social capital in the case of nobility by "blood" and to (often) cultural capital in the case of nominated "legal" nobility. Nomination in return contributes to and mobilizes the symbolic capital of who has the power to nominate (the King or the bureaucratic state), through collective recognition of *objectified symbolic capital* (e.g., dress and laws; Bourdieu, 1994, p. 11).

In the contemporary bureaucracy, a nomination is only validated by officials (authority and individuals) assigned by the state (e.g., the procedures for registering an auditor, or who can sign an audit report); only their nomination carries legal effect. For Bourdieu (1994), official nomination (including licenses by and registration with the state) institutes social guarantee identities (e.g., citizenship, car owner, taxpayer) and legitimises social groups (e.g, families and associations). With the state power to nominate and its authority to use *symbolic violence*, Bourdieu is of the view that:

By stating with authority what a being (thing or person) is in truth (verdict) according to its socially legitimate definition, that is what he or she is authorized to be, what he has a right (and duty) to be, the social

being that he may claim, the State wields a genuinely creative, quasi-divine, power (Bourdieu, 1994, p. 12).

A good (easy) example of state nomination power is automobile seat-belt laws--they show how state symbolic power works in parallel lines. The state constructs the rationality that it is safer to use a seat-belt. It enforces this idea with state physical power: punishment by a group of nominated (licensed and registered) actors, the police. Classification of citizenship underpins such a dynamic. Good people are those who accept state (seat-belt) ideas and bad citizens are those who reject submission to this free will constraint. Henceforth, nomination (including licensing, registration, and classification) intertwined to compose the state's symbolic power to shape the commonsense of the society, including the state itself. A *doxa* that is generated by the state with its related symbolic violence on violating individual free will to choose and decide.

#### **4.3.3.6. Concluding the state concentration of power**

For Bourdieu (1994), in civil societies, the state has significant involvement in (re)producing *doxa* for the nation and, relatedly, the *habitus* of individuals. It applies different forms and constraints to discipline the body and mind. Nomination is one direct example, but a crucial one. The state gets its symbolic domination by the *doxic* submission of the embedded (cognitive) structure (collective and individual) and objective structure (societal structure that applies to the cognitive structure). The state owes its symbolic legitimacy to imposing pre-reflexive vision to cognitive structures that accord to the state objective structure (Bourdieu, 1994, p. 14-5).

The *doxic* submission to the dominant image is often a result of intra-state battles between different visions. Bourdieu put this politically produced relation and confrontation between the dominant and dominated this way:

Doxa is a particular point of view, the point of view of the dominant, when it presents and imposes itself as a universal point of view--the point of view of those who dominate by dominating the state and who have constituted their point of view as universal by constituting the state (Bourdieu, 1994, p. 15).

The struggle of the few over the advantages and public resources of the state monopoly of physical and symbolic violence is through controlling and influencing *statist capital* which is a result of the state monopoly of different species of capitals. Again, such a universal monopoly is a result of submission and disinterestedness (Bourdieu, 1994). Bourdieu argues that the monopolisation of the bureaucratic field was done through commissions that are universally recognised and legitimised, aiming to promote general public interests. These commissions offered material or symbolic profits to the universe (public interests) at the cost of universal submission to commission rules and structures (Bourdieu, 2014).

Now I move to the last part of the Bourdieusian state theory, the dynamic of the bureaucratic field.

#### **4.3.4. Dynamic of the bureaucratic field and its relation to the field of power**

Drawing on his “field” perspective as a “space of objective relations between positions defined by their rank in the distribution of competing powers or species of capitals” (Bourdieu and Wacquant, 1992, p. 114), Bourdieu suggests that the bureaucratic field has a *distinguished* underlying structure and network (different dynamics).

For Bourdieu, the construction of the bureaucratic field resulted in the emergence of different corresponding fields as well as *statist capital* (a form of meta capital) that enables the bureaucratic field (the state) to exert power over other fields. For Bourdieu (1994), the state power is crucial as it exercises control over other species of capital, their exchange rate, and consequently over the holder of these capitals in various fields. In other words, the “state” became a meta-capital that grants power to other capitals as well as to the holders of these capitals (Bourdieu and Wacquant, 1992, p. 114).

As I explained earlier, with the shift from the patrimonial-dynastic to bureaucratic-state, the field of power changed (Bourdieu, 2004, pp. 25, 33). The field of power became a form of meta-field to govern various fields



(Bourdieu, 1994, p. 5). Actors in the field of power struggle, in particular, for power over the state power, for *statist capital* (Bourdieu and Wacquant, 1992).

For Bourdieu, the state does not solely occupy the field of power (Swartz, 2013, pp. 126-7), but overlaps a big part of the field of power as the struggle in the field of power is mainly over control of the *statist capital*. Swartz (2013, pp. 136, 144) suggests a different reading to the Bourdieu state-field of power relationship: as the field of power fights to control the state, the state, in return, became an arena to control the field of power.

As I mentioned earlier in Section 4.3.3, for Bourdieu (1994, p. 12), the state (re)produces social reality through its concentration of various species of powers. Also, its monopoly of the logic of nomination and classification institutionalises social identity and legitimises social groupings to accept social order that enables the state to (re)shape social reality through its physical and symbolic violence. Yet, as this is the end function of the modern bureaucracy, to maintain its (objective and embodied) symbolic domination, reaching this end is complicated, as Swartz (2013) argued;

The state itself is a site for ongoing struggles between groups and bureaucratic agencies, each attempting to impose its understandings of the social world as legitimate (Swartz, 2013, p. 140).

#### **4.3.4.1. The bureaucratic struggle to maintain or transform order**

The bureaucratic field carries its function and mission to legitimise its monopoly of physical and symbolic violence through regulations (as the primary weapon for controlling the totality) and agents/agencies that impose and enforce these regulations. On the production and consumption of social policies (to maintain or transform reality) in contemporary societies, Bourdieu and Wacquant (1992, p. 111) argued:

[W]hat we encounter, concretely, is an ensemble of administrative or bureaucratic field (they often take the empirical form of commissions, bureaus and boards) within which agents and categories of agents, governmental and nongovernmental, struggle over this peculiar form of

authority consisting of the power to rule via legislation, regulations, administrative measures (subsidies, authorizations, restriction, etc.).

In contemporary societies, Bourdieu (1998a, 1998b, 1999, 2005, 2014) theorised the homologous structure (distribution of power and interests) of the bureaucratic field. Bourdieu argues that, due to political division, for the state to preserve or transform its vision of the social space (often via *regulations*), there are two types of intertwined battles within the bureaucratic field. First, the vertical struggle between and within *high state nobility* and *low state nobility*. Second, a horizontal battle between the *right-hand of the state* and the *left-hand of the state*. In the middle of these tensions lie external forces (e.g., professions, banks, professional associations, building societies), that intervene in a particular bureaucratic struggle to influence the dynamics of bureaucratic disputes and to advance their interests. Nonetheless, these external forces are used by agents and bureaucratic institutions to support and win the imposition of their vision of reality (Bourdieu, 2005, p. 93).

For Bourdieu (2005), the vertical spectrum represents a hierarchal power of bureaucratic agent or institution (relating to a specific policy). Bourdieu argued that the field of *high state nobility* (upper level civil servant) is a field of permanent struggle (to impose its political vision) mainly on the functions of the state associated with its bureaucratic organisations (e.g., government ministries). Battles within the field of *high state nobility* occur because every bureaucratic body defends its interests (existence and functions) which in turn “indirectly” defend the function of the bureaucratic state. However, struggle within the field of upper level civil servants is also related to the influence of external forces. In return, *high state nobility* uses external forces to support imposition of its vision (Bourdieu, 2005, p. 93). On the other side of this spectrum lies the *low state nobility*. Opposite to *high state nobility*, *lower state nobility* represents agents and institutions with low bureaucratic authority.

To define the position-taking by a bureaucratic agent or institution, Bourdieu distinguished between two opposing rationalities behind bureaucratic (horizontal) struggles, the *right-hand of the state* and the *left-hand of the state*. For Bourdieu (1992, 1998a) the left represents the logic of spending ministries

(that in the past were responsible for social life) and the right hand represents paying ministries (with economic rationality and agenda; ministries responsible for managing/dispensing government monies). The right hand of the state could also be seen as the coercive hand of the state (e.g., the ability to use the armed forces) and the left hand as the social function of the state. Bourdieu (1992) is of the view that in contemporary societies, as the state is withdrawing from social life, the left-hand state senses that the right-hand lacks knowledge and probably does not want to know (or pay for) the social function of the left hand; this holds as well for socialist government. Nonetheless, while the distinction between left/right is a useful heuristic, it is not deterministic - the right hand of the state could act in a humanitarian way (e.g., the armed forces may help/rescue people from injury/death) and the left hand of the state may have a more coercive function (e.g., schools may suppress students' understandings of certain issues).

Strategies to maintain or transform bureaucratic reality depend on actor position-taking in relation to the position in the bureaucratic space (the bureaucratic structure) for a particular policy. What I mean is that a high state noble does not stick "permanently" to either a right hand "or" a left hand, but is selective, depending on the specific policy. And this position-taking depends on interests, the type of bureaucratic battle, the level of struggle, and the support of external forces--often through social capital or the *illusio* of externals (Bourdieu, 2005, pp. 110-20). Bourdieu (2005, p. 113) argued that the reason behind the tendency (left or right) in the strategic position-taking by bureaucratic authorities is "to prevent a bureaucratic body losing all *raison d'être* by losing its function". This also apply to agents within bureaucratic bodies that owe their bureaucratic *raison d'être* to the existence of their authority.

For Bourdieu, the struggle between civil servants related to the status of their bureaucratic capital. Bourdieu (2005, pp. 116-7) classified bureaucratic capital into *bureaucratic capital of experience* and *technically-based bureaucratic capital*. The former is related to knowing people and knowledge of regulations--a kind of capital that can be obtained over a long period and related to the

seniority of a civil servant. The latter, *technical bureaucratic capital*, may be accumulated more quickly and is a threat to seniority-based capital. Technical capital is related to assessing costs and effect through formalised procedures, statistical survey, mathematical modelling, etc. On this inner bureaucratic tension, Bourdieu added:

The force possessed by a particular civil servant or body of civil servants always relates in part to their ability to master, if not indeed monopolize, the rare resource that is information (we know that in internal struggles, “information retention” is one of the weapons employed by those holding an informational capital based on experience and seniority) (Bourdieu, 2005, p. 117).

The antagonism between bureaucratic commissions is involved in implementing strategies of mobilisation, manoeuvring, manipulation, and compromises to win the acceptance of a particular preference and solutions (to maintain or transform) of visions. However, as the bureaucratic agents/agencies have relative freedom for disposition depending on their position in the hierarchy, this in return gives greater *indeterminacy and uncertainty* to the bureaucratic field in comparison to other fields (Bourdieu, 2005, p. 130).

#### **4.3.5. Concluding comments on Bourdieu state power and his late writings**

In this section, I categorised Bourdieu’s scattered work on the state into three parts. The first part summarised Bourdieusian ideas on the reasons underpinning the transformation of the social governance system from dynastic to bureaucracy. One of the main reasons for such change is the expansion of the King’s territory, which resulted in changing the monarchical system of governance. Nonetheless, among many other reasons, the reformation of the juridical field and the use of Roman Law influenced the judiciary to support the public.

Part two explained how the bureaucratic state led the cognitive structure of the society to be aligned with the state structure for accumulating and maintaining its coercive and symbolic powers. Bourdieu theorised five related state

capitals. First, the concentration of coercive power is justified for inter-and-intra-state defence purposes. Second, economic capital to control expansion and defence, which contributed to the legitimacy of the tax institution. Third, informational capital through surveys and census where codification and classification inculcated a vision of national culture. Fourth, juridical power in producing social justice and security. Fifth, symbolic capital through the logic of nomination, license, and registration.

The last part explored Bourdieu's explanation of the dynamic of the bureaucratic field. Bourdieu argues for two intertwined battles within the bureaucratic field: between high and low state nobilities, and between the right and left hands of the state. External forces lie in the middle of the bureaucratic fight. They aim to influence the bureaucratic outcome, and bureaucratic institutions use external forces to support their fight to impose the dominant vision of the social world.

It is worth noting that Bourdieu's late writing was dedicated to neoliberalism and criticising the concept of economic globalisation. He argued, "It is an altogether paradoxical reality which relies upon a politics of depoliticization" (Bourdieu, 2002)<sup>31</sup>. Bourdieu also wrote about the short-term mathematical imperial vision of IOs that he believed not only demolished the welfare state but also created "havoc" in the relationship between the West and the non-West (Bourdieu, 1998b, pp. 5, 6, 19, 26).

Sadly, Bourdieu passed away from cancer in 2002. This was at the beginning of the implementation of the "new" global order, the global spread of Washington Consensus architecture that started to intensify with the Asian financial crisis in the late 1990s. Bourdieu did not offer detailed views on the process of globalising financial economies. In other words, as Bourdieu's practice notions (including state theory) are powerful in unpacking micro-social arrangements and power, he did not reflect in detail on the process of action

---

<sup>31</sup> In his book *Act of Resistance: Against the New Myths of our Time*, Bourdieu (1998b) offered various essays criticising the *doxic* economic rationalisation and the concept of the globalisation of economics.

and reaction in the global sphere between those behind the enforcing of the international architecture and those dominating the national social space.

To put it in Bourdieusian logic, as the state produces the cognitive structure of the individual mind to submit to the state's vision/power, the exogenous influence of globalisation on the state and local actor dynamics is not discussed by Bourdieu. I tried to cover this empirical gap by adopting a theoretical framework that focuses on global-local relations without threatening my (and Bourdieu's) philosophical position. I found Halliday and Carruthers' (2007, 2009) recursivity framework to be developed on Bourdieusian ideas.

#### **4.4. The theory of recursivity**

Terence Halliday and Bruce Carruthers are American sociologists. Halliday is a research professor at the American Bar Association and Carruthers is a professor of sociology at Northwestern University, Illinois, US. Both Halliday and Carruthers completed their PhDs in sociology from the University of Chicago. They co-authored many works in areas such as sociology, law, globalisation, economics and politics, organisations, as well as accounting. Their studies are interpretive in nature and interdisciplinary oriented. Working together since the 1990s, they produced two books and many journal articles and book chapters.

It was clear through reading some of their work, especially that related to their book *Bankrupt: Global Lawmaking and Systemic Financial Crisis*, that many scholars inspired their perspective and the creation of their theory. For example, John Meyer and Brian Rowan's work on the theory of decoupling, James Scott's book *Weapons of the Weak*, and the work of the economist Joseph Stiglitz and sociologist Max Weber (Halliday and Carruthers, 2009, pp. 3, 4, 28-30, 345). Also, in some parts of their book (without explicitly referring to him), Pierre Bourdieu's concepts and language were notable (e.g., fields, capitals, field of power, and habitus). The Halliday and Carruthers framework is a power theory. It emphasises power relations within and between globalism and the nation-state mediated by economic (neoliberal) activities.

In terms of their philosophy, the last chapter of their book (Bankrupt) largely explains their position. They are not anti-globalism, but they believe that Americanising the international finance system and then imposing it on countries with different social structures, practices, and cultures is hegemonic, wrong, and increases societal uncertainty (Halliday and Carruthers, 2009, pp. 411-2, 426). I believe Bourdieu and Halliday and Carruthers share many axiological similarities and close philosophical positions.

Following this introduction, the next sections aim to provide three things. First, I will introduce Halliday and Carruthers' work in the accounting literature. In part two, I explain Halliday and Carruthers' recursivity model. As I am heavily immersed in Bourdieusian logics, I intend to explain parts of transnational recursivity using Bourdieu's perspectives, particularly his theory of the state. The third part concludes and offers scholarly critiques on the theory of recursivity.

#### **4.4.1. The theory of legal change and the accounting literature**

I should start by pointing out that Halliday and Carruthers' notions on legal change were first published in 2007 in the American Journal of Sociology. Later, in the same year, Halliday and Carruthers issued a chapter in two different books about the same topic. One was on the foiling of global hegemony (Halliday and Carruthers, 2007b) and the other covered the modern transparency and predictability of bankruptcy law (Halliday and Carruthers, 2007c). In 2009, Halliday and Carruthers produced a 400 page book that synthesised all their findings, theory, and ideas.

It is noteworthy that some of Halliday and Carruthers' prior works informed the accounting literature as they published a number of accounting research articles in accounting journals. For example, Halliday and Carruthers (1996) study on the English Insolvency Act were employed by Cooper and Joyce (2013). However, reference to Halliday and Carruthers (2007, 2009) recursivity

theory in the accounting literature is scant. To my knowledge<sup>32</sup>, except for Mehrpouya (2015), accounting studies scarcely discuss Halliday and Carruthers' investigation, findings, and their developed theory. Nonetheless, even the Mehrpouya (2015) study focuses on global/local intermediation, cooperation, and coalition in developing a global accountability system. Mehrpouya applied Halliday and Carruthers (2007, 2009) to understand processes that led to the enactment of accountability governance for sovereign wealth funds. As we will see later, Mehrpouya's employment of recursivity constitutes one part of the theory: intermediation. The following sections cover the Halliday and Carruthers (2007, 2009) theory in greater detail.

#### **4.4.2. What is the theory of legal change, “recursivity”?**

In light of the Asian Financial Crisis of 1997, Halliday and Carruthers (2007, 2009) investigated and theorised how three different countries (Indonesia, Korea, and China) reacted, cooperated, and competed with IOs (global norm producers) to change their indigenous national bankruptcy systems to global standardised practices. Halliday and Carruthers found that the process of financial global convergence moves through three cycles. First, it starts from global scripts and norm-making (intermediation) to, second, national lawmaking (foiling), and third, from national lawmaking back to global norm-making (recursivity).

Halliday and Carruthers (2007, 2009) theorised about the power relation between global hegemonic agencies and countries that are perceived to be distant (weak) from centres that produce global norms. Halliday and Carruthers (2007, pp. 1137, 1154) argue that their theory is a result of intensive work with global key actors, and it is part of a broader study of 60 nations.

---

<sup>32</sup> I examined how Halliday and Carruthers recursivity work has been employed in the accounting literature. I found only Mehrpouya (2015) applied part of their recursivity framework, which is related to global norm-making. Nonetheless, a recent paper by Mihret et al. (2019) used a few aspects of Halliday and Carruthers' theorisation to explain the evolving relation between transnational forces and the Iranian state. A majority of studies either mistakenly cited the Halliday and Carruthers recursivity work or used it to support arguments about the tension in the global financial space. I even found a few studies referring to this theory in a footnote. However, in this thesis, I decided to not reflect (in detail) on how recursivity framework is followed in the literature.



These three countries were chosen, according to them, for two main reasons: the level of global involvement and influence differ in each case, and the mechanisms of resistance are different. The following sections will only cover the theory which is the outcome of their investigation (a summary of their findings is provided in Section 2.6.2).

Recursivity theory is all about the power relations between and within “globalised localisms” and “localised globalisms”. The term “recursivity” is attractive and is often linked to their work. Halliday and Carruthers (2007, 2009) used the three terms iterative cycles, recursive, and recursivity, differently (see Figure 6). In the global context, legal change goes through three cycles--first, iterative cycles for global scripts and norms production. Second, the recursive struggle of national lawmaking to enact and implement global scripts and norms. Third, the asymmetric integration between the two, where global power constrains national lawmaking and nations influence global norm-making through foiling, engendering what Halliday and Carruthers (2007, 2009) coined as “recursivity”. Hence, recursivity is the outcome of the entire cycle of dynamics from global influence to national enactment of laws (intermediation) to local struggles for implementation (foiling) and back to global norms-making (recursivity). The following two figures illustrate the objective structure of the recursivity model.

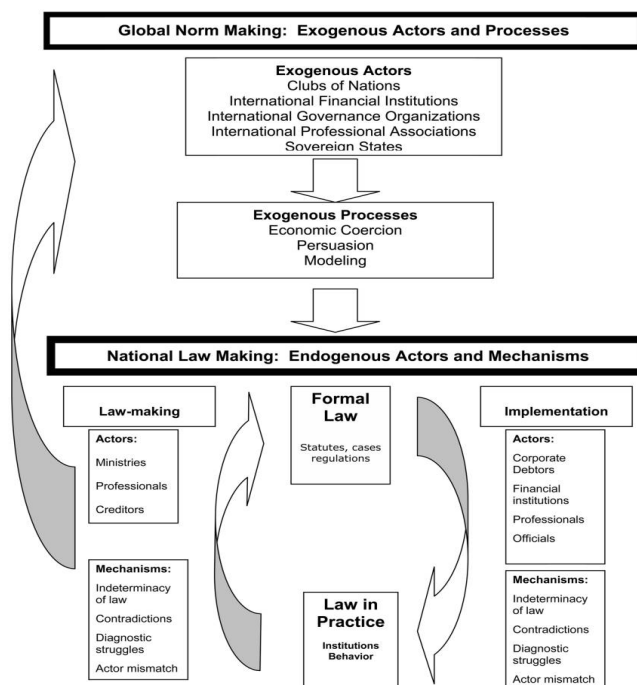


Figure 5: “Recursive cycles of bankruptcy lawmaking in global context”

Source: (Halliday and Carruthers, 2007, p. 1147)

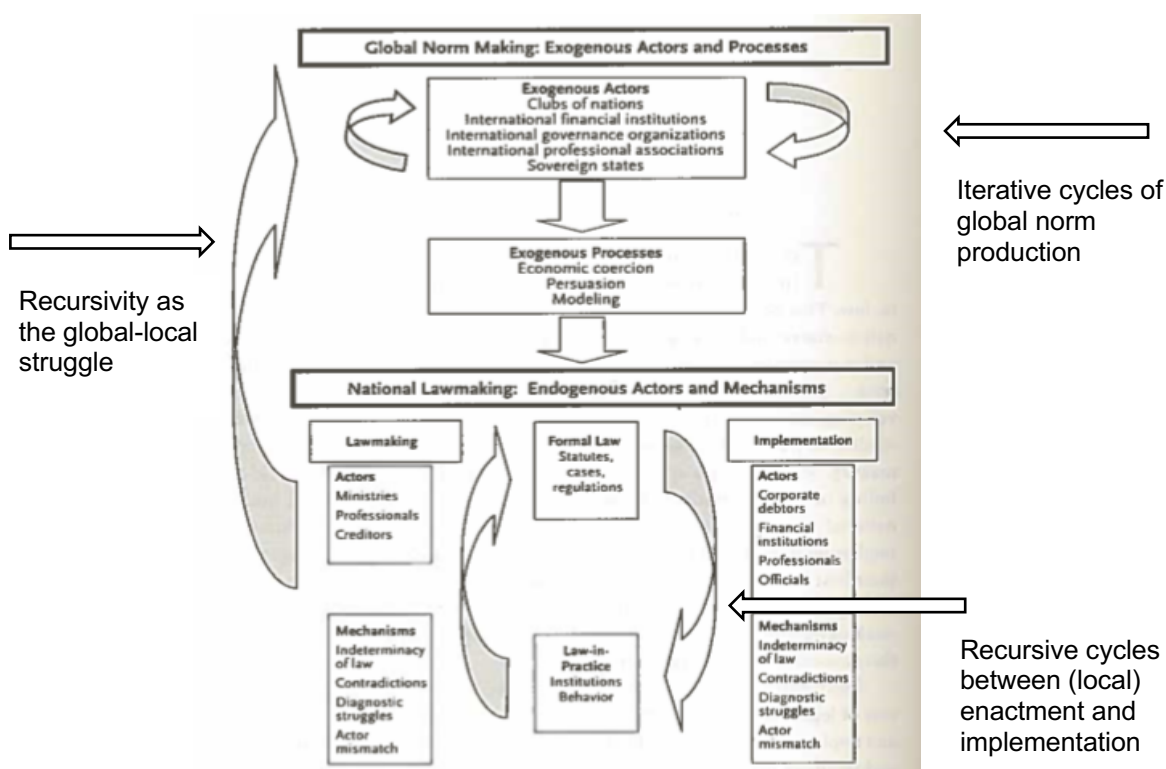


Figure 6: “Recursive cycles of bankruptcy lawmaking in global contexts”

(Halliday and Carruthers, 2009, p. 364)

Similar to Bourdieu, Halliday and Carruthers offered a structure to understand power relations and disposition within and between global actors (global norms producers) and nation-states. The first diagram is from their 2007 paper, and the second is in their 2009 book. Although they look the same, a notable difference exists. In their paper, Halliday and Carruthers did not write much about the recursive cycle of global norm production but instead focused on the logic and literature of world polity theory. In contrast, a significant part of their book covers the struggle in the global space to produce norms as well as their processes<sup>33</sup>.

#### **4.4.2.1. Global norm-making and power**

For Halliday and Carruthers (2009, pp. 9-10), globalisation is both a concept and a process. The concept of globalism works in three ways. First, from the top, it is achieved through imperial and quasi-imperial global actors. Second, from below, through the construction of local rationality to believe that the global solution is the one for their internal problems. Third, across domains, shifting global solutions from one arena to another as well as borrowing regulatory efforts of transnational agencies from one to another.

Halliday and Carruthers (2009) argue that the process of globalisation works in two parallel trajectories:

Globalization comprises both structural changes and discursive representations of those changes (Fiss and Hirsch, 2005). The *structural* dimension concerns changes in global flows of people, ideas, money, and material objects. The *discursive* dimension concerns the meanings that motivate, rationalize, and interpret structural changes, including diagnoses, policy frameworks, political framing, epistemologies, and the like. A global normative consensus therefore signifies the combination of a dominant discourse and congruent structural capacities that undergird its development and propagation (Halliday and Carruthers, 2009, p. 7).

---

<sup>33</sup> I think one reason for excluding global norm production from their first paper, although it is part of recursivity logic, might be that it is too much (in terms of length and ideas) for a single academic article. Or, taking a more suspicious view, I would say that they may not have been able to publish these ideas in the American Journal of Sociology.

Halliday and Carruthers (2009) criticised many scholarly perceptions on taken-for-granted globalisation as an unproblematic and uncomplicated process. They argued “globalization is contested and negotiated, not simply imposed and imprinted, even when the power differentials are pronounced” (p. 30). For Halliday and Carruthers (Ibid., p. 77-81), a global process is achieved when international players balance legitimacy (local submission to exogenous interference, procedural fairness in norm-crafting, effectiveness of norms), technology (appropriate arrangements to solve social problems), and leverage (depending on the capacity of global actors and the financial situation of a nation-state, leverage takes three forms: economic coercion for structural conditions, persuasion with potential incentives, and modelling for consideration by nations). Halliday and Carruthers (2009) criticised the process of globalism on the ground that “no IFI [international financial institution] or professional association had solved the fundamental problem of representation” (p. 121).

### *Powerful actors in the global space*

According to Halliday and Carruthers (2009), on the one hand, IFIs (especially the IMF and the World Bank)<sup>34</sup> have the most significant visible leverage to pressure countries, especially in a financial crisis situation, to adopt norms conditioned on lending. Nonetheless, clubs of advanced economies (especially the G7) have less obvious power, but their influence extends to most IFIs.<sup>35</sup> On the other hand, the importance of international professional associations (for bankruptcy laws) lies in their ability to provide technical expertise, but their global influence depends on mutual interest(s) with powerful nation-state(s) (Halliday and Carruthers, 2009, pp. 76, 299).

---

<sup>34</sup> There are differences between IFIs. For example, Halliday and Carruthers (2009) argue that the IMF is more centralised concerning its personnel and organisation compare to the World Bank’s long-term expansion in many countries. This difference makes the World Bank superior regarding knowledge and local experience compare to the IMF. Nonetheless, Halliday and Carruthers also argue that the IMF has the most coercive activities and the most substantial relationship and common global agenda with the US Treasury Department.

<sup>35</sup> For Halliday and Carruthers (2009), the Organization of Economic Cooperation and Development (OECD) also plays a significant role in supporting norms produced by IFIs by disseminating them internationally.

However, through their technical and sometimes mediating involvements, professions make the interaction between global and local more complicated because they have different interests, epistemologies, and capabilities.

Unlike the epistemological conflict for standardising bankruptcy between lawyers and accountants in the bankruptcy domain, the internationalisation of Western accountancy is monopolised by international standards-setting bodies and large international accountancy firms. Both share similar epistemologies. Relatedly, Arnold (2012, p. 375) theorised that in the wake of the East Asian Crisis and the reconstitution of international financial architecture, transnational accounting and auditing industries consolidated their power to pursue their (epistemologically similar) international expansion interests.

Nonetheless, as accountancy is a language for capital, the global spread of Western accounting and auditing practices have an embodied logic to embrace capital, which makes accountancy, arguably, a more important system for economic globalisation. Such importance reflects the power of the accountancy profession and international firms in the global sphere (see Section 2.2.3).

For Halliday and Carruthers (2009), other IOs that influence the crafting of global norms are the United Nations committees. These committees take the form of working groups and encourage the participation of countries and IFIs such as the World Bank and the IMF. The result of this type of arrangement is a high level of consensus on most issues. However, Halliday and Carruthers argue that countries of the south often share a common weakness in this regard. They either do not participate or continuously change their representatives. And most of their participants are diplomats with limited practical knowledge in comparison to participants from advanced economies and IFIs. This renders them ineffective in technical discussions and weak in negotiation.

Last but not least, many powerful Western countries attempt to influence the design of global norms and their transcripts. In this regard, Halliday and

Carruthers (2007) are of the view that no other countries can match the influence of the US. The US (through their Treasury Department, American experts, and corporations) has a significant leverage on clubs of nations, IFIs, the United Nations, and professional associations to influence the design of any global norm (Halliday and Carruthers, 2009). In globalising bankruptcy scripts and norms, for example, Halliday and Carruthers (2009, p. 412) argue that US involvement and influence exceeded that of all other advanced countries put together. Nevertheless, variation in systems between powerful advanced economies authorise alternative practices. And, because of these differences, developing economies vary in their adoption.

### *Politics and the struggle of global norm and script production*

Each actor in the global arena has strengths, limitations, and leverage, and each compensates for their weaknesses with the power of others. The dynamics in the global field constitute cooperation and conflicts as a race to the top and often IFIs work collectively (Halliday and Carruthers, 2009). Collaboration between global actors occurs because each institution knows the efforts of the other and may collaborate. Nonetheless, IFIs that do not develop norms rely on the models developed by others.

Conflict arises between global actors mainly related to who leads the universal norm. Or as Bourdieu would argue, each struggles to impose their vision of reality to protect their international existence by defending their purpose and function. Halliday and Carruthers (2009) argue that the prize of such a battle is to put their stamp on worldwide norm production--a harmonised global standard by a particular international institution. They put it in this way:

In its extreme form, when a dominant power prevails, the latter is the path to hegemony--universal acceptance of the rightness and "normality" of one course of action. In less extreme forms, it takes the paths of classification, labeling, and framing to develop universals that may be considered "modern", "efficient", and "advanced" (p. 8).

It is worth noting that the struggle between global actors and norm production is not always direct. For example, Halliday and Carruthers (2009) argue that international standards and protocols for airline safety are an indirect way of

leading the global norm. These standards adopted the US system. Therefore, any country implementing international standards (sometimes without knowing) has adopted the US system. In this scenario, the US successfully globalised its localism softly by using IOs, and the adopting country localised the US globalism. Thus, in the global arena, Halliday and Carruthers (2009) argue that it is critical to understand “whose localisms are being globally institutionalized” (p. 298).

Before I move to the next part, I thought I would provide a reflection on how Bourdieu’s theory (especially his ideas of the state) would explain Halliday and Carruthers’ perception on global norm production. I think Bourdieu’s theorisation of the state is highly appropriate for explaining the dynamic of the global space. The global space could be understood as Bourdieu’s theorisation of state 2 (the broader state, including state 1) and international players that construct the global space could represent Bourdieu’s theorisation of state 1 (the bureaucratic field).

Powerful countries (especially the UN Security Council’s five permanent members, P5, E 3+3) could be argued to occupy positions in the global field of power and the role of international organisations extends to the function and dynamic of the bureaucratic field. Depending on the ability of IOs to impose, maintain, or transform their vision of reality, they may be divided between high state nobility and low state nobility. The dynamic in the global space between the field of power (occupied by powerful countries) and high state nobility (occupied by powerful IO’s) is a collaboration and a confrontation, where each aims to monopolise physical and symbolic violence. However, the conflict between high state nobility (powerful international players) is to dominate specific policies and impose a particular vision of reality (see Section 4.3.4).

As Halliday and Carruthers’ recustivity theory argues that non-Western countries refuse to submit to norms that create local disorder, the power of IOs and their authority to advance global norms must not be only perceived as *doxa* (depending on the global policy and country *per se*), but could be imagined as Bourdieu’s theory of nomination that (re)shapes the habitus and

then develop into common sense, with related physical (through state sanctions) and symbolic violence (see Section 4.3.3.5).

### *The intersection of the global and the local*

The global normative framework for harmonising financial systems is achieved in two ways. First, norm-making through constructing international systems. Second, the restructuring of national systems through advice, assistance, and conditional lending to reform law and lawmaking. Halliday and Carruthers (2009) argue that it is naïve to assume that local and global powers are equal or that northern locals have similar power to the southern locals and vice versa. The global/local engagement is “complex, contested, and contingent on many factors” (Halliday and Carruthers, 2007, p. 1146). Biases are mainly related to national and regional importance, the inherited tension between global actors and the nation-state, the financial position of a state, social and cultural differences, and the level of integration of IOs’ ideologies and the practices of a nation-state. Nonetheless, only IFIs’ experiences with important countries influence global learning and inform their norms, not those with poor and less significant countries.

Influence of IOs is of two dimensions. The broader the imbalance of power between global and local, the greater the capacity to influence change in countries. Moreover, the wider the distance between the non-Western states and powerful global actors and their mores, the more likely that diagnosis of problems in the former by the latter will be ineffective, which may lead to the creation of more significant contradictions. International actors have limited ability to successfully reform the course of national practices because of a lack of understanding, or lack of interest in understanding, other cultures.

Sometimes, according to Halliday and Carruthers (2009), nation-states have interest in global programs and use the hegemonic power of IFIs for their own local interests. For example, a government may approach the IMF to obtain a loan not only for the money but for the conditions of the loan that may give a government more power and influence over its local opponents. And without these conditions, frequently imposed by international institutions, that



government would not be able to achieve such influence over its local opponent. Therefore, sometimes a domestic group allies with IFIs to increase its internal power for domination. This is in some ways related to what happened in Kuwait (see Section 9.5).

Halliday and Carruthers (2009) found that national politics to enact global norms occur in two phases. In the first phase, a government demonstrates to global institutions in direct negotiations over financial support its willingness for law reform. In the other stage, the government turns to local political constituencies that may resent the terms of externally induced changes and are responsive to local politics that may have little to do with the enactment of global norms as such but resist international influence to govern the faith of the nation over societal self-determination. In this regard, Halliday and Carruthers (2009) argue that IFIs often prefer negotiating reforms with executives (governments), not legislators (parliament members) as the latter are usually involved in and demand complex political trade-offs. As we will see later, nation states overcome the national political dilemma through symbolic compliance or decoupling (see Section 4.4.2.3). The following section explains Halliday and Carruthers' theorisation of national conflict on the changing of indigenous practices.

#### **4.4.2.2. Conflict in national lawmaking**

Halliday and Carruthers (2007, 2009) differentiate between two poles that mediate national lawmaking and national implementation of global norms: law on the books (formal law) and law in practice (behaviour of actors affected by the formal law). Global power influences enactments of formal law, but lacks control on the practice and behaviours of locals that implement/practice the enacted law(s).

Halliday and Carruthers (2007, 2009) theorised that national enactment and implementation have distinctive actors, but similar mechanisms (see recursive cycles in Figure 6). Enactment cannot be understood independently from implementation and vice versa; they are in a contingent relationship. The dynamic of national lawmaking between enactment (law on the books) and

implementation (law in practice) could be understood through the unpacking of the tension between pools, cycles, actors, and mechanisms of conflict.

### *Pools of legal change*

Halliday and Carruthers (2009), to clarify book and practice laws, explained that on the one hand, law on the books is a codified form of law (regulations, statutes, etc.) that is binding on a sovereign or transitional authority. However, “the law is binding *de jure*, and not necessary *de facto*” (p. 365). On the other hand, the law in practice is the behaviours and institutions of local actors. Halliday and Carruthers refer to actors that practice/implement the global norms and the enacted national laws as “truly local”.

Nonetheless, practices can lead to a new law on the books and law on the books can lead to new practices (Halliday and Carruthers, 2009). Additionally, the law in practice cannot be understood separately from the law on the books. These two forms of law represent the two pools of global-driven national legal change, which is an integral part of the theory of recursivity.

### *Cycles of national reform*

Reform leads to cycles between law on the books and law in action. These cycles begin with a problem, contradiction, or tension in social practice. Pressure for change is often caused by an event (a scandal or crisis). Cycles end when a problem, contradiction, or tension is resolved or a balance is reached between law on the books (enactment) and law in practice (implementation). It also may end when the pressure dissolves (external, political, etc.). After a cycle ends, the social practice continues, the practice of the enacted law may change, but the law on the books remains unchanged until a new reform episode begins.

### *Endogenous actors*

Within national lawmaking, local actors populate the two recursive loops (enactment and implementation). On the implementation side, local actors occupy the practice of norms--this includes, for example debtors, creditors,

workers, lawyers, accountants, and/or auditors. These actors have the power to solve or complicate the gap between reformed law and practice. The other, enactment side, is occupied by actors with the power for legal, political, and policy change (the parliament and the government in the case of Kuwait). Halliday and Carruthers (2007) classify enactment actors in bankruptcy law into two groups: first, state actors (government officials, politicians, judges, Ministry of Finance vs. Justice etc.). Second, in countries with advanced capital systems, the market (e.g., lobbying and professional associations) has some influence on the enactment of law(s). Each of the two groups of enactment actors have their domestic allies (within a nation-state) to impact a statute of global norm.

Bourdieu would argue that the national class of actors represents the structure of the bureaucratic field. Actors in the enactment pool are divided between high and low state nobility, depending on their authority to institute change. And the implementation pool with limited power to effect legal change is considered a force external to the bureaucratic field. These external forces influence conflict between high and low state nobilities to protect their interests, and state officials (enactment actors) use external forces in their bureaucratic struggle to win and advance their interests (see Section 4.3.4.1).

Global market actors such as multinational corporations and/or international professional associations may influence the national bureaucratic conflict by siding with specific national actors to support or resist national reform based on how these changes may serve or hinder their interests. However, behind all global actors, there might be a powerful state such as the US “which often seek to orchestrate the global formulation of norms and their impact on particular nation-states” (Halliday and Carruthers, 2007, p. 1149).

### *Mechanisms of struggle for legal change*

In national lawmaking, the two sides of the recursive loops (enactment and implementation) are arenas of power. The tension between the two groups of actors –those who enact law and those who practice law, results in what Halliday and Carruthers coin *the implementation gap*: the gap between global-

norm-driven enacted law and existent indigenous practices. The national conflict for change as a result of international pressure, according to Halliday and Carruthers (2007, 2009) is often due to four mechanisms: indeterminacy of law, contradictions, diagnostic struggles, and actors' mismatch.

Bourdieu (1994, p. 2) theorised that in reforming national laws, the state causes significant resistance among locals. Such resistance is not only because of actor occupational interests, but also due to the associated changes to social division and hierarchy. Nonetheless, within the context of recursivity, Bourdieu may argue that the indeterminacy of law, contradictions, diagnostic struggles, and actors' mismatch are strategies by local actors to resist associated changes to interest(s), the structure (division and hierarchy) and dynamic of (a) field, and/or the national social space.

### Indeterminacy of law

Indeterminacy of law is the inherited ambiguity in any law (Halliday and Carruthers, 2009, p. 378). Ambiguities in laws and regulations (for example: multiple international interpretations, vague clarifications, inconsistency with other laws) leads to uncertainty and unexpected consequences--the more confusion in the interpretation and multi-interpretation by actors, the more inconsistent in its application. Moreover, the more sophisticated the local professionals, the higher the manoeuvring in implementing the law. Also, indeterminacy may be constituted by institutional corruption or incapacity. Indeterminacy with an undesired outcome may fuel recursive cycles (between enactment and implementation) to reduce these gaps until it reaches a balance. Ambiguity might relate to basic concepts such as the meaning of "debt" that generates a major recursive cycle (Halliday and Carruthers, 2009).

### Contradictions

Engagement of different ideologies generates contradictions and these contradictions get internalised within laws and regulations. Partial, temporary, or even a customised solution imported from outside a nation may lead to unstable solutions that may create local interruption (Halliday and Carruthers,

2009). The tension between global and local is to reconcile ideological, political, and structural contradictions. For example, with the globalisation of neoliberal ideologies, nation-states are pressured to reduce their power over local sectors for foreign ownership and to reduce state intervention to control markets. To overcome this dilemma, lawmakers design policy to satisfy the global norm and at the same time, with the intention of maintaining local power. Halliday and Carruthers (2009) refer to this reaction as a “symbolic gesture to foreign interests” (p. 28). They also define this as a strategy of national resistance and coined the term "symbolic compliance" (see Section 4.4.2.3).

Structural contradictions may also arise when an implementation is divided between competing government agencies (e.g., economic, justice, finance ministries) with their different epistemologies. Not to mention when an implementation is allocated to competing occupations or weak professions (Halliday and Carruthers, 2007). Another form of contradiction may be sourced to domestic social conflicts. For example, in Indonesia, the ethnic and political struggle between the Chinese, who dominate the economy, and ethnic Indonesians, who dominate politics. I noticed similar structural contradictions in Kuwait within ruling groups (see Section 9.2).

### Diagnostic struggles

Diagnosis relates to how a social problem is to be identified and understood, a field of struggle on who wins the right to define a social problem. Diagnosis for Halliday and Carruthers (2007) “usually contains an implicit theory of relations between parts of a society, market and government” (p. 1150). Frequently, to legitimise diagnosis, expert services are used. Conflict over diagnosis is most often transferred to a struggle over treatment. Actors whose diagnosis is accepted usually also win the right to prescribe the solution. However, disputes over treatment sometimes relate to how measurable these prescriptions are in order that they may be monitorable. Measurable and auditable solutions help actors to win at diagnosis and treatment. Actors whose diagnoses are rejected are frequently excluded from the prescription of solutions and later fight against their exclusion in the implementation stage.

In the global context, asymmetry of power between global and local leads to difficulties for an external actor to be able to diagnose and prescribe a national social problem. Besides, diagnosis at both the global and local levels often creates struggles between professions (economists vs. lawyers vs. accountants). Interestingly, Halliday and Carruthers (2007) say that “it is a common strategy of professionals to seek technical diagnoses and specialized treatments in order to encapsulate a sphere of regulation within their own professional jurisdiction” (p. 1151).

### Actors’ mismatch

Mismatch always happens between actors who enact laws and actors who practice these laws. Halliday and Carruthers (2009, p. 384) argue that “[t]he mechanisms that produce or mitigate ‘mismatch’ are critically important in the recursivity of law”. Nonetheless, changing a law based on the diagnosis and/or prescription by non-key actors or a non-key group of locals often results in resistance, primarily if the change is found to affect the interests of these actors, to be an illegitimate process, or even if it is believed to be unfair. That said, failure to incorporate key local actors who practice lawmaking (diagnosis and prescription) result in shifting the battle-ground to the implementation site where local actors can undermine, resist, frustrate, or subvert the changed law<sup>36</sup>. Now I will move to the last part of the Halliday and Carruthers framework, recursivity.

---

<sup>36</sup> Halliday and Carruthers (2007) argue that “a double effect occurs that affects implementation: the quality of the prescription is likely to be lower since it rests on a weaker foundation, and disenfranchisement from participation in the design of treatment will lower its legitimacy for certain parties, reduce compliance, and engender resistance at the point of implementation” (p. 1189). I agree, and I understand that Halliday and Carruthers explain the reasons for local resistance and its relation to foiling global norms. However, in social problems surrounding capital and power, allowing “truly locals” to participate in diagnosis and prescription does not necessarily mean that it will be for the greater good of a nation. If a nation-state has unfair structures or practices, local actors may struggle to maintain their power even if it is at the cost of the greater good of the society (this may apply to global, local, West, and non-West).

#### **4.4.2.3. Foiling global hegemony and the generation of recursivity**

Locals, whether domestic elites or domestic professions, have been less regarded by globalism and perceived to be lacking power and often thrown out of the global harmonisation arena. Halliday and Carruthers (2007, 2009) argue that in the most extreme national crisis where global powers are at maximum impact (through enforcing economic coercion, strict deadlines, shaming or pressure through annual IMF Article IV), truly locals fight back at the implementation phase. They repeatedly find ways to resist foreign interlopers and continue to maintain autonomy over their local fields to protect their interests and domestic powers.

Halliday and Carruthers (2009) argue that converging global norms go through three processes: intermediation, national lawmaking (foiling), and recursivity. Intermediation and foiling ignite recursive cycles of struggle between enactment (law on the books) and implementation (law in practice). Bourdieu suggest that conflict arises not only between the bureaucratic field and social fields, but also within them, each actor(s)/agency aiming to legitimise their domination and the imposition of their vision of the social world.

With the struggle between globalism and localism, for the latter to impose its norms on individuals who practice legal change, Halliday and Carruthers (2009) wrote:

Convergence has its limits precisely because the strong are not so powerful as they usually are alleged to be and the weak have weapons that mitigate their powerlessness (p. 294).

The next section explains Halliday and Carruthers' theorisation on how nation states attempt to obstruct and subvert the global hegemonic agenda which creates recursivity between international actors and the nation-state(s). The next section will also explain Halliday and Carruthers' notions on why countries that are distant from the centres of global norm production could "reject" global forces even when these countries are in their weakest financial situation.

## *Strength of the weak*

Halliday and Carruthers (2009) explained various findings concerning how countries around the world withstand the intervention of global powers in their internal affairs. These weapons of the “weak” include:

- ***Rejecting conditional aid***, which happened in Malaysia and Argentina (Halliday and Carruthers, 2009, p. 342). This situation is subject to the limited need for short-term money by a state or capital that can be found elsewhere. Also possible if a country has a strong leader who can challenge IFIs and, at the same time, maintain domestic power and order.
- ***Refusal to adopt important recommendations*** is possible if the leverage of global actors is low. Or if a nation-state can demonstrate its general compliance, and can justify and convince IFIs that the recommendation creates more significant problems, especially to the market and economy.
- ***Fragment international influence***: for example, China’s ability to fragment global power gave it more freedom to determine its own path. Halliday and Carruthers (2009) argue that the ability to fragment global power is often not a state tactic but due to the state’s disorganisation such as various local agencies competing to protect the state from global intervention. This argument is similar to Bourdieu (2005) theorisation on the inter-bureaucratic conflicts between government agencies which reflect on protecting the bureaucratic state and rationalise its symbolic power.
- ***Invoking cultural incompatibilities***: resisting IFIs’ recommendations on the grounds that they contradict national cultural mores. This strategy is effective on small issues, not in cases of significant structural reform required by a global power.
- ***Segment reforms***: breaking reform into steps where every step influences the next (trial and error with less risk). This approach is often rejected in emergencies situations as IFIs have a maximum short term power, and this strategy is more applicable for long term reform.
- ***Substitute a solution***: this happens when a country has the freedom to choose or if the difference in the level of power between global and local is



minimal. Also, if the local proposed solutions are of similar sophistication to the global model.

- **Construct exclusions and escape routes:** compliance with IFIs usually risks internal power relations and order. So, governments build “back doors” so that risky subjects and unanticipated consequences can be removed to mitigate local order (e.g., exceptions to the new law or government interference through local bodies to enforce the new law).
- **Deferral and delay of compliance** happen if a government accept IFI recommendations and conditions and then do very little for a long time to enact these requirements. Manipulating time through “foot dragging” is to throw the responsibility to a new government, or await the rise of another local or global event that will overtake current global conditions and recommendations. Usually, these tactics are effective if IFIs are unable to punish countries for non-compliance or if a state is unable to deal with these global programs.
- **Symbolic compliance:** Halliday and Carruthers (2009) support the scholarly view that:

[C]ountries, like organizations, can offer signals of compliance to external constituencies but proceed divergently with international practices (DiMaggio and Powell 1983; Hirsch and Rao 2003; Meyer and Rowan 1997) (p. 345).

For them, the appearance of compliance (or, to use the Halliday and Carruthers (2007, 2009) term, "symbolic compliance") is a cheap and easy strategy. It prevents potential (political and administrative) changes to the local balance of power and possible disorder in case implementation is seriously enforced. For Halliday and Carruthers (2007, 2009), “symbolic compliance” is a form of avoidance, which is the appearance of compliance only to satisfy global hegemonic power.

Halliday and Carruthers (2009, pp. 345-8) explained five types of symbolic compliance. First, partial implementation of enacted regulations. Second, perverse implementation of principles, for example, subversion of new institutions by embedding them in weak existing institutions. Third, enacting

the required statute but subverting it through regulations that operate on the legislation. Fourth, failure to enforce the enacted law. Finally, in countries where the court system is affected by political influence, enacted law may be subverted by the court.

The ability to comply symbolically is conditioned on various situations that are not only related to a country's capacity to manoeuvre but also sometimes on circumstances in the global arena. For example, states can signal compliance in appearance (whether due to intention or incapacity) if IFIs have limited oversight and enforcement abilities to ensure that practice follows enactment. Without this global capacity, countries may enact law without enforcement.

Additionally, if a specific IFI left a country, handed it to another IFI, or even if its priorities changed, countries gain more space to manoeuvre. Similarly, a new international crisis will affect how states comply with global symbolic power. Halliday and Carruthers (2009) provided an example of how the 9/11 disaster in the US distracted and changed the priorities of IFIs which allowed countries to manipulate prior conditions.

To conclude discussion on the strategies of the perceived "weak" state in submitting to global forces, Halliday and Carruthers (2009) argue that:

The IFIs are not naïve. They have been in many comparable situations. Their officials may have knowledge of the region or the country. They will have ample access to the best and brightest experts inside the country. They get immediate access to any government officials. And they have their formidable negative sanctions. In practice, however, it looks rather different (pp. 351-2).

This is basically because for Halliday and Carruthers (2007, 2009) global hegemonic activities and power have limits.

### *Weakness of the strong*

Halliday and Carruthers (2009) identified various issues that weaken the position of perceived powerful global actors to control the advancement of their international financial convergence interests:

- **Time pressure:** IFIs moves from crisis to crisis. Time pressure and inappropriate attention and resource allocation to local situations constitute a major threat to globalism. Each lawyer in the IMF legal department is responsible for several countries, and the World Bank legal department does not have a lawyer specialised in bankruptcy.
- **Diagnostic limitations:** proper prescriptions depend on the accuracy of the diagnosis. While IFIs are dominated by economists with limited knowledge of each country's political economy and local institutions, this will result in poor diagnosis and consequently poor prescription with respect to the cultural and institutional complexities of different countries.
- **Inappropriate borrowing:** time pressure and limited capacity to deal on a case by case basis led IFIs to borrow ideas for practices from earlier crises elsewhere.
- **Formulaic solutions:** labelling global norms as "best practices" offers no efficient and effective reform and often they are unrelated to global flourishing. Dealing with complex local institutions with these ideologies is a "cheap" way to generate institutional change that is, as claimed by (Halliday and Carruthers, 2009), "Putatively efficient, yes. Practically effective, no" (p. 353).
- **Excluding key locals:** IFIs hegemonic practices ignite and fuel national recursive cycles through generating actors mismatch. Besides their carelessness regarding national sovereignty interests, endogenous power, and the exercise of economic muscle by IFIs and the powerful states behind them, protecting foreign interests only will intensify public resentment which will diminish the power of globalism over a country.
- **Asymmetry of expertise:** IFIs access expertise quickly and easily, but developing countries cannot. In Korea, for example, national expertise matches IFIs staff and knowledge and therefore can buy more freedom in lawmaking. A nation without world-class domestic experience like Indonesia appointed a specialised law firm from the US to compete with IOs and offer a stronger voice for purposes of negotiation.

#### **4.4.3. Concluding transnational recursivity**

In the theory of recursivity section, I provided a holistic explanation of the recursivity framework. Halliday and Carruthers (2007, 2009) theorised the dynamic tension between globalising localism and localising globalism, where global hegemony creates leverage over the national enactment of global norms but lacks power over the implementation. Local actors resist changes to their social positions and often attempt to obstruct norms that affect their dominations. Accordingly, recursivity is often engendered because of the resistance of the “truly locals”.

The theory of recursivity is constituted in three parts. Part one is about the crafting of norms at the global level and the advancement of these norms to nation-states. Part two is about the local conflict in lawmaking and the resistance of locals required to practice global norms-driven changes that affect their social position(s). Within a nation-state, exploiting the gap between the embedded culture of the global norm and national system of power result in what Halliday and Carruthers (2007, 2009) define as the “theory of recursivity”.

Countries have the ability to foil global power even in extreme economic situations mainly because “implementation gaps are the rule, not the exception” (Halliday and Carruthers, 2009, p. 428) and local actors are the experts on these gaps. Recursivity stops when a balance is reached between the integration of global norms and local settings. Often, according to Halliday and Carruthers, nations comply symbolically; that is, compliance in appearance.

On the surface, global harmonisation of law, regulations, and institutions might appear to be simple. Enforcing the “Western” system, for example, infiltrates all aspects of local society. It is not related to mere change to finance exercises, but “institutional restructuring (Halliday and Carruthers 2004b)” (Halliday and Carruthers 2009, p. 362) and frequently sparks “a sea change in cultural orientations” (Halliday and Carruthers 2009, p. 414).

Attracting the flow of foreign capital that will lead to local economic and social flourishing is the propaganda of localising globalism. Most foreign investments, according to Halliday and Carruthers (2009), move between advanced countries or to China, a country that only in recent years put in place basic commercial laws without effective implementation. They add, without respecting locals, global standardisation of law and the market will continue to be uncertain and compromised.

Bourdieu's theory of the state (part of his broader approach of practice) is comparable to Halliday and Carruthers recursivity model. The global space may be explained as the broader state and international players exemplify the bureaucratic field. Powerful countries (e.g., the G7), occupy different positions in the field of power and other countries represent other social fields. Conflict within powerful countries in the field of power is to legitimise their global domination, and the conflict within the bureaucratic (global) field is to impose its vision of truth. Each key actor in the global or local spaces implements strategies and engages in struggle to accumulate or maintain domination over their related field(s). I also argued that Bourdieu would suggest that global norms might be understood as either *doxa* or state nomination logic, depending on the level of radical belief in these norms. If a country obstructs or resists the application of global norms, this arguably may mean that a nation does not have the radical belief in these global norms, at least not yet!

### *Critiques of the Halliday and Carruthers recursivity model and book*

Halliday and Carruthers book has been criticised as lengthy with repetitious arguments (Power, 2009). Also, Shaffer (2011), for example, suggested calling this analytical framework Transnational Recursivity Theory and offered three challenges to it. First, bankruptcy law (in many parts) is technical and requires careful explanation. Second, it contains too much information for a single book! Third, which is, in my view, the most critical comment: the possibility of applying this theory to areas outside bankruptcy.

Shaffer (2011) argues that unlike the “soft norm making” of international bankruptcy laws, other laws are “binding” by international agreements, such

as human right laws, which may not be relevant to recursivity theory. I think Halliday and Carruthers theory is more relevant to laws that are “directly” related to the international *financial* system. However, I found their theory extremely useful to understand the global-local dilemma for modernising audit regulations in Kuwait.

By reading most of the Halliday and Carruthers recursivity work, a couple of questions came to mind that I could not find answers to in their cited (2007, 2009) works. First, Halliday and Carruthers (2009) explained the “weakness of the strong” that is the limitation of global actors. An important question that deserves investigation is: if global actors know they are getting foiled, why do they continue with the same process? Is it because of what Espeland and Sauder (2007) explained as a self-fulfilling prophecy? Or, is it due, as Brown (2015) theorised, to norms as a “Trojan horse” to produce social neoliberal rationalities? Or, as Bourdieu would argue, that without their continuous struggle with nation state(s), IOs may not only lose their *raison d’être*, but diminish in global power and lose their authorised global hegemonic function(s). Or could there be other reasons?

Finally, at the national level, recursivity is a long process that involves local tension between the time of enactment and the time of rejection by the truly local. My question is: what are the implications (if any) that the rejected laws create in a society? For example, does this rejection (during the period of resistance between enactments and implementation) spark/affect individual cognition in certain ways? I do not intend to answer these fairly complex questions, but thought they are worth reflecting on.

The next section concludes the chapter.

#### **4.5. Chapter conclusion**

This chapter explained two related theories for understanding the social world in a globalised era. First, I started by explaining Bourdieu’s practice theory. Bourdieu designed an objective structure with a subjective disposition to offer his perspective of truth behind the social world and social practice. Bourdieu

inter-related *master* concepts including fields, capitals, habitus, and field of power. Fields are the space of struggle where Bourdieu's practice notions settle. Capitals are the weapons of the agent(s) for accumulating power and battling to transcend in (a) field. However, as I demonstrated, Bourdieu differentiated between various types of capital, and important capitals differs in different fields. Nonetheless, an actor's position in a field is related to the level of accumulation of important capitals. Habitus is the mental and physical actions and reactions of actors that direct their engagement in the struggle of (a) field.

The meta field of power sets on top of the social space. Dominant actors at the top of important fields (e.g., economic and bureaucratic fields) have the ability, if they have the interest, to occupy a position in the field of power. The field of power struggles to control statist capital and to legitimise their dominations in their respective social fields. The field of power decides on the dominant capitals and the conversion rate of capitals in social fields.

Bourdieu's practice theory did not neglect the system of taken-for-granted that normalises peoples' everyday life. This includes *illusio*, *doxa*, and symbolic violence. For Bourdieu, *illusio* is a specific interest in the rewards a field may offer. *Doxa* is a radical belief in social rules and structure. Relatedly, symbolic violence is a form of violence but with an actor's complicity. It constraints the free will of actors because of the common sense in social rules and structure.

In the second part of this chapter, I provided a holistic explanation of Bourdieu's understanding of the state (which is part of practice theory). I argued that Bourdieu state theory is underused in the accounting literature. Bourdieu linked the power of the state to its ability to generate and accumulate statist capital which is partially related to struggle within the field of power. However, unlike Max Weber's theorisation of the state monopoly on physical violence, Bourdieu's focus was also on the symbolic dimension of the state as the producer of social *doxa* and its monopoly over symbolic violence.

I explained Bourdieu state theory in three parts. The first part summarised Bourdieusian ideas on the genesis of the bureaucratic system as a successor

to dynastism. The second part explained how the state maintains its power through the monopoly of different species of capitals. The last part illustrated Bourdieu's theorisation of the bureaucratic field. Within the bureaucratic field, Bourdieu argued for two intertwined battles for bureaucratic authorities to impose their vision of reality on the social world.

As Bourdieu passed away without sharing his reflections on the process of economic globalisation, I tried to cover this shortage by adapting the Halliday and Carruthers theory of transnational recursivity. Accordingly, in the last part of this chapter, I explained the recursivity theory in full. Halliday and Carruthers theorised that the global convergence of financial regulations moves through three phases. First, conflict in global norms productions. Second, national struggle to implement global norms where the global player can influence enactment but not implementation.

Truly locals (locals who are required to practice global norms) often resist global norms due to their indeterminacy of law, diagnostic struggle, contradiction, and actor mismatch. Such obstruction by locals engenders the third phase of the cycle for global convergence, recursivity. In the transnational recursivity section, I provided Halliday and Carruthers' notions on how state(s) that are perceived to be weak in the global space employ strategies to undermine global hegemonic power. I also explained the Halliday and Carruthers' notions on the significant weaknesses of powerful global actors in advancing their interests for countries' structural changes. In this section, I argued that Bourdieu's theory of practice (especially his notions on the state) could properly explain the dynamic of the global space.

The following chapter explains my methodological position and the methods I pursued to collect data to help to understand the problem of modernising the audit regulations of Kuwait.





## **5. RESEARCH METHODOLOGY AND METHOD**

### **5.1. Introduction**

Morgan and Smircich (1980) criticised the majority of social science research that fails to “explicitly” discuss research methodological assumptions. Similarly, Hopper and Powell (1985) argued that “By making explicit the basic assumptions behind different pieces of work, it is hoped that a greater tolerance and awareness of research from alternative disciplines and perspectives may be encouraged.” (pp. 429-30). The intent of this chapter is to provide a general explanation of my philosophical position, including methods used to analyse the modernisation of audit regulations in Kuwait.

I depend on various methodological studies to explain my research methodology and method. But my philosophical explanation is centred around the seminal work of Burrell and Morgan (1979) (*Sociological Paradigms and Organisational Analysis*) on the different approaches to social theory. Additionally, I followed thematic analysis procedures described by Braun and Clarke (2006). This chapter is classified into four parts. The first part provides a brief explanation of research philosophy mainly depending on the work of Burrell and Morgan (1979) and some scholarly critiques. The second part explains my philosophical assumptions as a constructivist-interpretivist. The third part illustrates my research strategy (inductive qualitative), research design (case study), and data analysis (thematic). The last part concludes this chapter.

### **5.2. Philosophy of social theory research**

Research methodology is “a reflexive resource for understanding the relationship between our worldview and our ways of researching and theorizing” (Cunliffe, 2011, p. 7). However, research methodology and its relation to method(s) is the result of antecedent philosophy applied to the social world. That said, consistency and correlation between research philosophy, theoretical framework(s), and the adopted method is vital.

In the seminal work of Burrell and Morgan (1979), to simplify the complexity of the realm of research philosophy, they theorised that the philosophy of social science research lies in two associated logics. First, the subjective-objective approaches to social science research (horizontal axis). Second, assumptions about the nature of society (vertical continuum). The intersection of these two philosophical perspectives generates what Burrell and Morgan theorised as the four philosophical paradigms to social science research (see Figure 7).

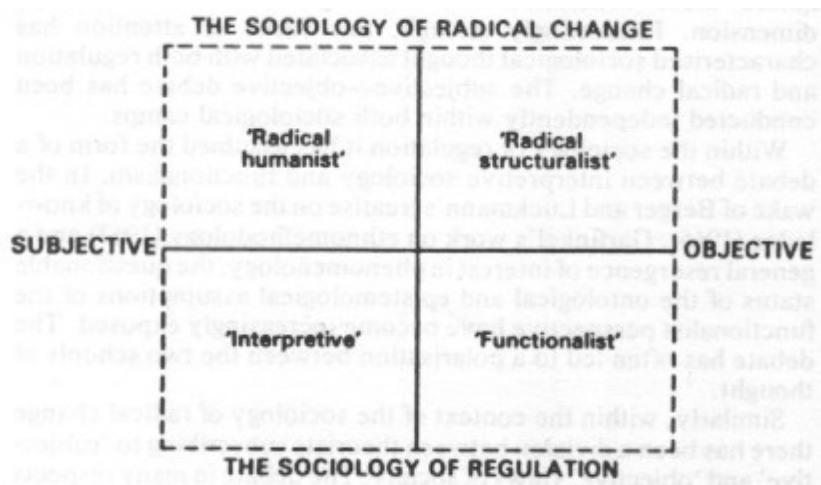


Figure 7: "Four paradigms for the analysis of social theory"

Source: (Burrell and Morgan, 1979, p. 22)

### 5.2.1. Dimensions to the nature of social science

Burrell and Morgan (1979) offered two extreme ends (subjectivity vs. objectivity) to explain approaches to social research (horizontal analysis). They theorised that the philosophical position on the subjective-objective scale relies on four dimensions of related assumptions: ontology, epistemology, human nature (axiology), and methodology (see Figure 8).

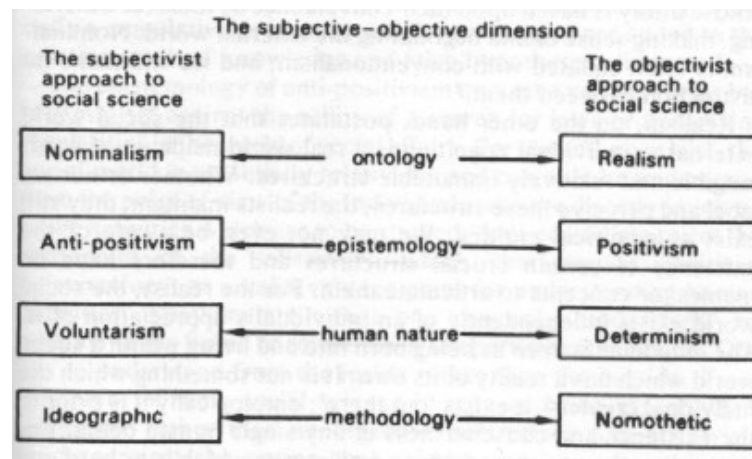


Figure 8: “A scheme for analysing assumptions about the nature of social science”

Source: (Burrell and Morgan, 1979, p. 3)

Ontology, on the one end, is concerned with the existence of social reality as “truth” concretely existing independent from the individual, without influence by the people, and people are perceived as physical objects (objective-realism). On the other end, “truth” is seen to be the product of individual consciousness that is (re)produced by social arrangements, structures, and collective meanings (subjective-nominalism). Ontological questions could be something like, “Do we make real free will choices? Or are external forces controlling our outcomes?” (Lyon, 2017, 00:4:10).

To reality comes epistemological assumptions. Epistemology is concerned with the process of knowledge and the assessment of “truth”. For example, epistemological questions could be: what is knowledge? What is the nature of knowledge? What is “true” and what is “false” knowledge? On the one hand, in relation to ontology, Burrell and Morgan argue that the social world may be acquired and transmitted in natural objects through scientific knowledge (objective-knowledge; positivism). Positivism sees knowledge as external to human behaviour.

With a fundamentally different epistemological position, on the other hand, knowledge can be obtained from the individual: nature, meaning, perception, and experience (subjective knowledge; interpretivism--Burrell and Morgan refer to it as anti-positivist). An interpretivist understands reality from within

individuals or groups of individuals, rather than looking for the relationship between truth and knowledge from a distance.

In social science research, an associated assumption to ontology and epistemology is “the relationship between human beings and their environment” (Burrell and Morgan, 1979, p. 2). Burrell and Morgan coined it as *human nature*. The two extreme views on the assumptions of human life are: human activities and practices are determined by the situation/environment (e.g., culture) in which the individual lives (objective-deterministic). Or, humans have free will, and voluntarily adapt to a situation/environment (subjective-voluntarist).

It is worth noting that “human nature” is one aspect of Burrell and Morgan’s dimensions on the nature of social science. However, the Burrell and Morgan analysis and reflection on this significant philosophical position is minimal. They explained a small part of human nature (deterministic vs. voluntarist) but omitted its broader logic to axiological assumptions (Burrell and Morgan, 1979, pp. 6, 9 [8]).

To investigate and obtain truth, ontology, epistemology, and human nature have a direct implication to methodology (Burrell and Morgan, 1979). Methodology is the process of obtaining knowledge. With an objective approach to the social world, researchers often attempt to identify, measure, and express “generalised” patterns of a world that exists external to humans. Researchers submitted to this (nomothetic) approach often use methods of natural science and apply statistical techniques, whether through secondary data, questionnaire, or surveys (Hopper and Powell, 1985).

On the other methodological end lies a branch of researchers who perceive reality within individuals. Knowledge is obtained through individuals or group of individuals who demonstrate “understanding” of the social world rather than seeking to generalise social laws (ideographic, non-numerical data). For the subjective approach to the social world, to acquire knowledge, “individuals” are at the centre of the research methodology; this includes, for example, observation and or interviews.

Now I move to explain the second part of Burrell and Morgan's theorisation of research philosophy--the vertical axis on the assumptions about the nature of society.

### **5.2.2. Assumptions about the nature of society**

The previous section offered Burrell and Morgan's horizontal analysis to social research for two extreme philosophical viewpoints (objective vs. subjective dimensions). The vertical line that joins in making the four philosophical paradigms (as we will see in the next section) is the underlying assumption about the nature of society. Burrell and Morgan (1979) argue that *researcher commitment to a specific view of society is crucially important but widely neglected*. Building on theories of order and social control, Burrell and Morgan (1979, pp. 10-20) argue that there are two fundamentally different positions from which to study society: the *sociology of regulation* and the *sociology of radical change* (see Figure 7). Although one side accepts the status-quo of social order while the other challenges it, Burrell and Morgan argue that dilution may exist, but separation is essential.

On the one hand, the sociology of regulation is concerned with the importance of social unity and accepting the world "as it is". For Burrell and Morgan (1979) this viewpoint stresses "the need for regulation in human affairs" (p. 17) to maintain *taken-for-granted* assumptions of social solidarity, consensus, status quo, and order. On the other hand, in contrast to regulation, the sociology of radical change is concerned with a deeper understanding of the social structure and the construction of human cognition in modern societies. Radical change worries about structural conflicts, domination, and contradictions.

The "radical" school of thought focuses on emancipating humans from structural (material and mental) constraints to potentially develop a fairer social system (structure and arrangements) to enable human progress. Nonetheless, the sociology of radical change is "concerned with what is possible rather than with what is; with alternatives rather than with acceptance of the status quo." (Burrell and Morgan, 1979, p. 17).

### **5.2.3. The formation of Burrell and Morgan's four philosophical paradigms**

According to Burrell and Morgan, the intersection between meta-theoretical assumptions of the nature of social science and the nature of the society results in four philosophical paradigms for viewing the social world: functionalist, interpretive, radical structuralist, and radical humanist (see Figure 7). Ryan et al. (2002) argue that these four methodological standpoints could be linked to categories of accounting research such as mainstream, interpretive, and critical theorists. That said, a philosophical paradigm is a set of beliefs that represents how a researcher views the world (Guba and Lincoln, 1994). For Burrell and Morgan, objective-functionalist and subjective-interpretivist paradigms shares commonality within the societal assumptions of the sociology of regulation. Whereas objective-radical structuralist and subjective-radical humanist ones align with the sociology of radical change.

Burrell and Morgan (1979) argue that each of the four paradigms features mutually exclusive qualities (critiques on paradigmatic segregation are offered in the following section). Here I will explain my understanding of two paradigms within which my thinking is located: structuralist and humanist.

For Burrell and Morgan, building on Frankfurt School logics, the “humanist” paradigm is a subjective dimension to radical change. The underlying logic of this philosophy is that human “true consciousness” is suppressed by “ideological superstructures” that drives cognition and (re)enforce human “false consciousness” and prevent humanity from developing (Burrell and Morgan, 1979, p. 32). The humanist paradigm often focuses on human consciousness and the search for the potential to emancipate the social world from modes of domination and alienation.

“Structuralism”, for Burrell and Morgan (1979), is an objective approach to radical change. Unlike the humanist concentration on consciousness, structuralism focuses on investigating structural relations and conflicts from an objective position to liberate humans from the constraints of embodied social

structures. For Hopper and Powell (1985, pp. 450-1), the main difference in Burrell and Morgan's theorisation of the two radical paradigms, is that for a structuralist, the social world is embodied in structural conflicts, and individuals are external objects to such relations, while for the humanist, the social world is falsely conscious due to alienating the perception and interpretation of individuals.

#### **5.2.4. Critique of the Burrell and Morgan philosophical paradigms**

Burrell and Morgan (1979) built their philosophical theorisation on the postulate that "inter-paradigmatic 'journeys' are much rarer" (p. 24) and "A synthesis is not possible" (p. 25). Burrell and Morgan set a hard line to separate structuralism and humanism based on their subjective-objective theorisation. Their argument was built on Karl Marx "epistemological break" between his early and late works<sup>37</sup>. Many--Chua (1986), Cooper (1983), Hopper and Powell (1985), and Ryan et al. (2002), for example--offered critiques to such exclusive dichotomies, especially those related to radical paradigms. Hopper and Powell (1985) put it in this way:

The mutually exclusive division of radical theories by Burrell and Morgan carries the danger that concerns of radical structural analysis are seen as incompatible or irreconcilable with those stressing consciousness, rather than seeing both as dialectical aspects of the same reality (p. 451).

Similarly, Cooper (1983) argued:

These four paradigms are intended to offer alternative ways of viewing organizational activities. Although it is possible to take issue with Burrell & Morgan's view that there is no likelihood of a synthesis of these views (Chua et al., 1981) (p. 272).

I agree with Hopper and Powell's (among others) disapproval of Burrell and Morgan's separation of radical paradigms. As we saw in the previous chapter, Pierre Bourdieu developed an objective structure of the social world to understand human subjective practices through the unpacking of structural

---

<sup>37</sup> Hopper and Powell (1985, p. 451) argue that several theorists positioned Marx's early and late works within the same philosophical framework.



conflicts and domination. Within Bourdieusian theoretical ideas, one of the drivers of human practices is the system of taken-for-granted (*illusio*, *doxa*, and symbolic violence) that target the consciousness of the individual. Bourdieu's conceptualisation of habitus also could be interpreted as a combination of structure and consciousness.

Bourdieu's theorisation of the social world (practice and bureaucracy) puts him (and probably many other radical theorists, e.g., Halliday and Carruthers) in a philosophical space that combines both structuralist and humanist aspects of Burrell and Morgan's philosophical theorisation (see Figure 4). Nonetheless, even in Bourdieu's late writing (e.g., neoliberalism), he continued to depend on the same structuralist-humanist combination, but I believe he only transcended in his societal assumptions of radical change.

### **5.3. My philosophical stance**

#### **5.3.1. World view assumptions (social science and society)**

I believe all branches of the sciences have implications for each other, including social science. I see the social world as subjectively constructed and sustained by individuals. For me, social reality is sustained by humans through, for example, practices and language to create a meaning for life. That said, as I understand it, truth lies within the individual's unique personal emotion, perception, and experience; collectively, people create shared meaning, arrangement, and structure for life (culture). Sometimes these systems mislead "true" consciousness and alienate individuals to submit to specific general roles and a particular order which constrain and hinder their development.

In social science research, with my perception of reality as subjective and socially constructed, knowledge can be known through individuals. Epistemologically, I see truth through the eyes of the people. However, a challenge exists for such an epistemological position that is "see[n] through the eyes of only some of the people who form part of a social scene but not others" (Bryman, 2016, p. 394). I guess (probably) this is one of the embodied

limitations of interpretive inquiry because it is not reasonable to obtain the reality of the total population<sup>38</sup>.

However, depending on the research aim, I followed three things to minimise (and maybe eliminate) such an epistemological threat. First, identifying “key” actors and a purposive sample to help the researcher better understand and evaluate “truth”. Second, depending on the complexity of the problem, an appropriate theoretical framework might be helpful to overcome such limitation. Third, constructing an adequate research design.

#### **5.3.1.1. Axiological position**

I am a product of Kuwaiti culture. Except during my postgraduate studies (two years in Australia and around five years in the UK), I have lived most of my life in Kuwait. I was born and raised in Kuwait by Kuwaiti parents. I obtained a public school education and my undergraduate degree from the same society, Kuwait. Also in Kuwait, I worked for eight years in a governance function in financial institutions and around three years in academia. Arguably, this puts me in an excellent position to recognise the micro-dynamics of the Kuwaiti social system.

A valid (but difficult) question here would be: if you are born and raised within Kuwait structural and ideological constraints, how can you evaluate (epistemologically) what is true and what is not about that same social system? In another words, how could a researcher who is subject to a specific societal structural and ideological formation (as an insider/native) “deeply” understand suppression and repression of the same society?

To refute this inquiry, during my PhD programme (four-plus years), I have been living in the UK, away from the constraints of the Kuwaiti social system. This has helped me observe Kuwait from a distance. Nonetheless, since the beginning of my second year of PhD studies, I have immersed myself in various “critical” social theories either through independent readings or

---

<sup>38</sup> Another weakness in qualitative inquiries raised by Ryan et al. (2002) is “how far should a researcher expand the case in studying interrelations ... How far back in time should the case study researcher probe?” (p. 159).

through reading group(s). Social theories helped me, arguably, “to see the world as it might be” (Suddaby, 2014, p. 408). Theories reconstructed my rationality to look at “things” differently. In other words, to a large extent, it helped me to comprehend the cognitive production, suppression, and structural domination of various social systems.

### **5.3.1.2. Value of research**

Chua (1986) argue that “knowledge is produced by people, for people, and is about people and their social and physical environment. Accounting is no different” (p. 603). Indeed, accounting is not different. As we see the accountancy (accounting and auditing) research is dominated by the market-based philosophy to maximise capital accumulation, I see the value of research (including accountancy) goes beyond the self-centred, maximisation of the economic utility of individuals, organisations, and politics. In accountancy, for example, there were calls from various scholars to locate accountancy research where it correctly belongs, the social and political domains (e.g., Cooper, 1983; Cooper and Sherer, 1984; Hopper and Powell, 1985; Willmott, 1986).

Although most research may constitute knowledge, even false or humble knowledge (e.g., economic orthodoxy in accounting) is itself knowledge. However, I believe that in order for societies to progress, *praxis* and the welfare of the totality needs to be at the centre of the investigation, not only for economic reasons but also, more importantly, for political and societal ones<sup>39</sup>. Relatedly, unpacking cognitive and structural constraints offers a productive road to fairer progress for humanity. Nonetheless, theories guide us to understand the complexity of the social world which, at the same time, underpins the value of knowledge (Suddaby, 2014).

Cooper (2005) argued that as accounting and finance is at the core of national and global capital systems, a combined knowledge of accounting and research is powerful in the creation of pressure for social change and to develop a better

---

<sup>39</sup> By praxis I mean the act of practices in social life.

world. That said, challenging the status quo and questioning the social order are probably the first steps for a researcher to position her/himself on the right (moral) track. This type of positioning and research are complicated and less appreciated (even in academia itself). However, as individual consciousness is shaped, controlled, and suppressed by social arrangements and superstructures, I concur with the Cooper (2005) argument that it is a moral obligation of intellectuals, those who have the tools, to emancipate those being exploited to bolster human progress.

I find it really strange how the so-called “mainstream” researcher views accountancy as an objective reality and applies a natural setting approach to their investigation! I always imagine that if humans disappear, will accounting or auditing “practices” continue to objectively exist? Definitely not! In fact, there will be no social life! This vision of imaginary objective reality also applies to “mainstream” market and economic dogmas.

#### **5.3.1.3. Nature of audit and knowledge**

Max Weber, in his book *Protestant ethic and the spirit of capitalism*, linked double-entry bookkeeping as one of the significant contributions to the emergence of modern capitalism and the Western rationalisation of capitalistic enterprises (Weber, 1930, pp. xvi-xvii, xxxv). Similarly, Bourdieu (2014, p. 215) argued that the codification of accounting facilitated the centralisation and monopolisation of power in the modern bureaucratic state. This places accountancy as a system with a substantial effect on (re)producing social control and order.

There is no clear-cut definition of accounting. Hamilton and HÓgartaigh (2009), for example, argued that accounting is a language for capital with embodied logics that re-shape the individual habitus. Miller (1990) argued that accounting should be understood on two reciprocal fronts. First, as calculative practices that materialise social practices. Second, as a programme of “political rationalities” that sets out the government vision of the social world through constructing and governing social reality.

Audit, as it is contained within the accounting cosmos, governs accounting “reality”. It is an additional layer of governance to disseminate accounting logics by (re)constructing social practices (through checking the application of accounting and diffusing the logic of checking which reinforces the ideas of accounting) aiming to make things auditable (Power, 1997). However, with the rise of the political and economic power of audit firms (e.g., the Big 4) at both the national and the transitional levels, they, arguably, dominate not only the “practice” of audit, but also the design, application, and interpretation of accounting.

Unlike accounting, the system of audit is a clear political arrangement between the state and a group of social actors (auditors). The state nominates a group of “specialised” social actors and provides them with a market to check, legitimise, and reinforce the use of accounting logic to ensure a specific social cognition and particular social order that are aligned to the state vision of the social world. In return, the nominated social actors (auditors) formed political fields (firms and associations) as a class of “competent” “experts” to monopolise and expand the state-designated market and to dominate the arrangement of their practices. Nevertheless, auditors use the state to advance their interests collectively and individually (Willmott, 1986) at both the national and international levels.

With the rising social power of the audit profession and firms due to intensive economisation of social life, the state(s) became the protector of the legitimacy of audit arrangements to promote confidence in the audit system and to attract capital (Sikka and Willmott, 1995). However, when (some) auditor practices became a threat to the state’s symbolic domination, the state interfered to regulate and oversee the profession (see Chapter 1) with different outcomes in different states, mainly depending on state power and/or the level of state dependence on the audit profession to govern social life (see Section 2.5.2). Henceforth, changing the mode of (inherited) regulations of auditor practices is a site of power between the state (including the government, powerful social classes, and the broader society) and the audit profession, whether the regulatory change is self-determined by a nation-state or externally imposed.

After explaining my understanding of research philosophy and providing a relatively clear account of my philosophical stand, I move to explain my approach and the process of accumulating data that aim to help me understand my research problem on the modernisation of audit regulations in Kuwait.

#### **5.4. Research method**

Philosophy, theoretical framework, and methods need to be in synch with the aim of the research (Hopper and Powell, 1985). Methodology is a fundamental process and an approach for the relationship between researcher world view, research inquiry, and technique to pursue knowledge (Morgan and Smircich, 1980). Nonetheless, as methodological assumptions and adequate methods must be closely related (Chua, 1986, p. 604), research method is embodied within the research methodology and philosophy (Morgan and Smircich, 1980).

Research approach represents the relationship between theory and social research. In academic research, there are a couple of strategies to explain and theorise knowledge, such as deductive or inductive approaches (Bryman, 2016; Bryman and Bell, 2015; Saunders et al., 2009; Yin, 2014). On the one hand, deductive reasoning involves deducing a hypothesis to test and verify theories. On the other hand, an inductive approach to research is more related to allowing theories to emerge from data. Ryan et al. (2002) argue that while the deductive approach merely provides predictions of general regularities, inductive research helps in understanding the world.

As I set my position as constructivist-interpretivism, followed by non-numerical inductive-case study, it is worth noting that the purpose of research (strategy) reflects on the type of adopted case study. That is, whether to describe, explore, or explain a social case. I agree with Ryan et al. (2002) that there is no “clear cut” distinction between these purposes: “the distinction between exploration and explanation is rather ambiguous” (Ryan et al., 2002, p. 144). I have a tendency to explain practices within a particular social system and

specific circumstances, which probably positions me on the explanatory route to case study.

#### **5.4.1. Case study design**

Yin (2014) argued that there is no single formula for performing social science research as it mainly depends on the particularities of the research. However, this thesis follows a qualitative inquiry. That said, the qualitative approach is often referred to as a method or a methodology. What I mean by qualitative here is a socially constructive approach to obtain “truth” with a case study as my primary method to pursue knowledge. As I perceive reality as arising from within individuals, there are several techniques to seek such knowledge: ethnography, grounded theory, experiment, or even archival research. However, I believe, based on my methodology and research aim, a case study is the most appropriate method and strategy that will help me to gain in-depth understanding of the practices of regulatory change within the broader social settings.

A case study is defined as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context” (Robson, 2002: 178, cited in; Saunders et al., 2009, p. 145). Among many research strategies, I found the case study method to be the most suitable one that resonates with my research aim, philosophical assumptions, and methodological position. Nonetheless, the explanatory case study method has the merit of helping to gain a deep understanding of social problems (Ryan et al., 2002; Yin, 2014).

#### **5.4.2. Preliminary interviews**

To set my field of investigation, I performed preliminary interviews in June 2016. This was an important step to test the adequacy of interviewing, my targeted technique to collect data. Power and Gendron (2015, p. 151) warn doctoral students about the difficulties of accessing audit firms. Accordingly, preliminary interviews helped me evaluate my ability to access institutions and organisations, assess the level of interview feedback, and develop the feeling

as well as the mental preparation for the primary data collection phase<sup>40</sup>. For me, as I was open to navigate broad key issues, preliminary interviews were extremely beneficial in finding my niche research interests. I started by examining the regulations of corporate governance in its more general sense; that is, the (inter)relationship between audit, corporate governance codes, and financial regulators and regulations in Kuwait. The outcome of these interviews tempted me to focus on Kuwait's SOX-driven audit reform.

My preliminary interviews followed broad exploratory inquiries (see Appendix 1). Such a design was helpful to gain further understanding of the problem of governing corporations and the practices of audit firms. To do so, as illustrated in Table 5, I performed one-to-one, face-to-face, open-ended semi-structured interviews with six actors. With variation in managerial levels, I interviewed two actors working with a financial regulator, one working with a medium-size listed company, and three interviews with two Big 4 firms located in Kuwait. These specific interviewees were selected for two main reasons. First, they practice as both producers and consumers of financial and audit regulations. Second, the six interviews were relatively easy to arrange<sup>41</sup>. Details about interviewees are as follows:

No.	Job Position <sup>42</sup>	Institution/Organisation <sup>43</sup>
1	Executive	Big 4 (b)
2	Executive	Big 4 (d)
3	Executive	Listed company
4	Mid-level staff	State financial regulator
5	Mid-level staff	State financial regulator
6	Audit non-executive	Big 4 (d)

Table 5: Preliminary interviews

<sup>40</sup> This was my first personal experience as an academic research interviewer.

<sup>41</sup> Most of these interviews were arranged through social relationships.

<sup>42</sup> Executive position within audit firms refers to a managerial position above manager. Non-executive refers to the function of manager and below. Executive position in a listed company refer to senior executive management level. Within the state financial regulator, mid-level represents a mid-level managerial position. Table 6 follow the same logic.

<sup>43</sup> Big 4 (b) and Big 4 (d) interviews were conducted in different international audit firms, reported so as not to reveal the firm names. Table 6 follow the same logic.



Interviews lasted between 50 and 70 minutes<sup>44</sup>. Four meetings were audio-recorded, and for the remaining two, detailed notes were taken. Five interviewees were male; one was female. Semi-structured inquiries were centred around four broad themes: corporate governance codes, audit market, audit regulations, and audit independence (Appendix 1).

Two things are worth noting. First, I did not perform proper academic research analysis for the preliminary findings. It was just six interviews with broad inquiries for the purposes detailed earlier. Second, none of the preliminary interview findings were “consciously” used in the analysis of my main research findings. The outcome of the preliminary examination merely helped me to clarify specific issues and motivated me to focus on the broader social conflicts of implementing US SOX-driven “international best practices” audit regulations to Kuwait. Consequently, such focus guided me to navigate a particular literature, legal documents, and the design of my research. The following section explains my main data collection phase.

### **5.4.3. Main interviews**

Collecting data for a case study can be achieved via various techniques, for example through observation or focus groups. However, the selection of a specific method has an embodied methodological assumption that should work in parallel to the research objective(s). The interview method, for example, has different sub-types. For instance, on the one hand, structured interviews do not leave much space for interviewees to reflect on their personal experience and knowledge, whereas unstructured interviews are broad and general.

On the other hand, the semi-structured interview provides similar flexibility to the unstructured for interviewees to reflect their worldview but with a list of inquiries on precise themes (Ryan et al., 2002). For that reason, I found open-ended semi-structured interviews the best fit for both my methodology and

---

<sup>44</sup> Two of the six interviewees were interviewed again in the “main” data collection phase with different sets of inquiries (see Section 5.4.3).

research aim. Also, in comparison to different types of interviews, the semi-structured interview is more suitable to an explanatory research approach (Saunders et al., 2009).

To understand the logic of audit regulation, I reviewed various laws and regulations as a complementary additional source of information to help me understand the underlining structure of auditor practices. Most of these documents were publicly available and gathered through Internet search engines. Yin (2014) argued that applicable documents are noteworthy as multiple sources of evidence (triangulation) to help the researcher broaden the investigation as well as strengthening the constructive validity of the study. However, public access documents have been criticised for being subject to scrutiny by their writers because they are written for a purpose (Bryman, 2016, p. 560-1).

I agree with Bryman's argument but I believe, depending on the type of document, the credibility of documents may have different underlying "realit(ies)". For example, it is inappropriate to compare the trustworthiness of a company audit report or financial statement with a state law. Both are documents, and both were produced for a purpose. But often laws and regulations are taken at face value because they go through a socially recognised mechanism (parliament or government department) to (re)shape practice(s) (individual and collective), and eventually form a collective meaning to (re)establish a specific order. Henceforth, to some extent, I agree with the Bryman claim, but this does not mean that a researcher ignores document review or analysis. On the contrary, but most importantly, one must be sceptical about them<sup>45</sup>.

#### **5.4.3.1. Formulation of my interview guide**

The interview questions were not intended to guide interviewee responses but to allow interviewees to reflect their world views concerning pre-set specific

---

<sup>45</sup> A significant part of the findings of this thesis argue that even financial laws and regulations must not be taken at face value (see Chapter 8).

inquiries. However, for some inquiries, I had to give a preface or lead the interviewee to reflect on a particular context (Q6, Q13, Q14, Q15, Q16, Q17, Q18; Appendix 2). My interview questions were designed to cover four broad themes. First, the dynamic of the field of audit firms. Second, the relationship between Kuwaiti financial regulators and audit firms. Third, modernising the Kuwaiti audit system. Finally, localising northern audit and financial systems (see Appendix 2).

The development and formulation of the interview questions were guided by prior literature (including positivist research), the reviewing of various local and international laws and regulations (e.g., Kuwaiti laws and regulations<sup>46</sup>, US-SOX of 2002, the EU 2014 audit legislation effective 2016, and the IFAC code of ethics), reports produced by different IOs (e.g., IMF, World Bank, IOSCO), my analysis and understanding of the local context, and Pierre Bourdieu's ideas (especially his field concept, at the time of formulating of my interview inquiries).

I was very surprised that the majority of non-positivist accounting literature, especially in audit, does not give much consideration to contemporary (globalised) technologies propagated to enhance audit quality (see Section 2.5). I found myself forced to read "positivist" (US dominated) literature to have an idea of what is going on with regard to audit technologies (rotation of firms vs. partners rotation, SOX-logic of prohibition of advisory services, shift of oversight from the profession's peer-review to the state, and implications of state inspection and disciplinary proceedings). That said, as most of my interview questions are driven from the literature, laws and regulations, and international reports, some of the interview questions, especially those related to modern audit quality technologies (e.g., rotation, disclosure of audit fees), were formalised from findings of "positivist" studies.

---

<sup>46</sup> This includes, for example, Kuwait audit law, commercial law and its amendments, and various laws and regulations of CBK and the newly established regulator, the Capital Market Authority.

Although the general themes that underpin my interview enquiries are broad *per se*, I purposely constructed many (sub) interview inquiries to guide the interview discussion (within specific themes), to gather as much data as possible, and to have a holistic understanding about the struggle of audit regulatory change (Appendix 2). However, although constructing interview questions to cover broad topics has the merit of providing a comprehensive understanding of social arrangements and practices, it bears significant challenges in the analysis phase (see Section 5.4.4, Appendix 5). Nonetheless, although some of these inquiries may look complex, as I will explain in the next section, it is important to keep in mind that I targeted and interviewed people who have intensive practices around these issues.

All interview questions were translated into Arabic before interviews. On every interview sheet, I had all the questions in both Arabic and English. The reason behind the translation is to give the interviewee the flexibility to pursue discussion in Arabic and/or English, and for me to be prepared for this without losing focus. Also, I have designed my interview document to be practical and easy for taking notes (two-column layout).

#### **5.4.3.2. Collecting data from a purposive sample**

In a case study, it is impractical to collect data from the full population (Saunders et al., 2009, p. 212). However, given my research objectives, for the collected data to be representative, it is not very difficult to identify “key” actors in Kuwait’s relatively small audit regulations field. In Kuwait, three (main) government agencies are directly involved in producing modern audit regulations: the Ministry of Commerce, CBK, and the newly created Capital Market Authority (CMA; see Chapter 6). Indirectly, however, the accountancy body has minimal influence. The organisations that practice within these regulations are audit firms. I did not include companies in this sampling design mainly because companies (in my preliminary study) were not perceived to have an adequate understanding of the settings, arrangements, and practices of audit regulations.

With Kuwait's small market, I know that six firms dominate the external audit scene (the Big 4 plus RSM and BDO), and approximately five individual auditors have the highest symbolic status within Kuwait's audit field. However, before I travelled to Kuwait to perform my interviews, I was successful in identifying (through my social network) "key" people within state regulators who are directly involved and influence the regulation of corporate audit.

As I mentioned earlier, Power and Gendron (2015) warn of the difficulty in accessing audit firms. Although this was done successfully, it was not an easy task. For me, obtaining interviews with state financial regulators was much more difficult than interviewing key individuals at audit firms as well as the accountancy body. That said, I was able to secure most of my interviews with key people before I moved to the field to collect my data. As I knew a few of these people myself, some I approached directly and many by using my social network. It is worth noting that in Kuwait, there are no "formal" procedures within government bodies for academic interviews. Table 6 illustrates details about my interviewees:

No.	Interviewee code	Job position <sup>47</sup>	Institution/Organisation <sup>48</sup>
1	Big-A	Executive	Big 4 (a)
2	Big-B	Executive	Big 4 (b)
3	Big-C	Executive	Big 4 (c)
4	Big-D	Executive	Big 4 (d)
5	TIER2	Executive	Second-tier international audit firm
6	TIER3	Executive	Non-large international audit firm
7	ABODY	Executive	Accountancy association
8	SFR1	Executive	State financial regulator
9	SFR2	Executive	State financial regulator
10	SFR3	Executive	State financial regulator
11	SFR4	Executive	State financial regulator
12	SFR5	Mid-level staff	State financial regulator

<sup>47</sup> Job position follows the same explanation as in footnote number 42 (Section 5.4.2). Executive at the accountancy body and state financial regulator represent positions of department head and above.

<sup>48</sup> Interviews with state financial regulators are sorted based on job position not institutions.

13	SFR6	Mid-level staff	State financial regulator
14	SFR7	Mid-level staff	State financial regulator
15	SFR8	Mid-level staff	State financial regulator
16	SFR9	Mid-level staff	State financial regulator

Table 6: Details of the main interviews

Of the sixteen interviews, two were arranged differently. I phoned one audit firm asking about the possibility of interviewing a specific actor which they, thankfully, arranged. With regard to the other interviewee, one of the key actors whom I interviewed recommended I meet a specific person working at a specific regulator, whom I identified earlier but was not able to reach. By expanding the use of my network, I was able to arrange a meeting with her/him. The way I was able to secure interviews with “key” people in the audit regulations field probably tells a lot about the significance of social capital in the Kuwaiti social system.

As I mentioned earlier, only two interviewees in the preliminary study were interviewed again in the primary data collection phase with a different set of inquiries. The majority of interviews was arranged and scheduled prior to my travel to Kuwait. All the interviews were performed within a period of two months, December 2016 and January 2017. Moreover, all interviews were conducted face-to-face and took place at the interviewee’s place of work. I interviewed fourteen male and two females respondents (other than the one I interviewed in my preliminary phase). All interviews, at the request of my interviewees, were conducted in the Arabic language.

Interviews lasted between 70 and 90 minutes, except for two, which were 50 minutes and 160 minutes. Most interviews were audio-recorded, except for four, because the interviewees were uncomfortable being recorded. In these four interviews, detailed notes were taken. The transcripts of the unrecorded interviews were done on the same day immediately after each interview. Also, after each interview (recorded and non-recorded), I wrote notes about my general feedback with the interviewees and things I noticed that were not part of the interview guide inquiries.

Three points need to be addressed here. First, I ensured complete anonymity for all my interviewees, including name, job position, as well as the names of their organisation/institution. Second, as we do not live in a utopian world, although my inquiries are broad and not sensitive in nature, many interviewees, especially with state agencies, were anxious about the implications of their discussion for their job security. Part of their worry was due to my request to record the interview and part was related to tension within regulators and between regulators and “influential” auditors. However, I promised them I would make any effort to track their discussion impossible. To meet this promise, I anonymised not only interviewee names and managerial positions but also did the same for the names of relevant government bodies. Nonetheless, in some direct quotations published in this thesis, I purposely did not incorporate interviewee codes. Finally, I was surprised by how open, honest, and enthusiastic most of my interviewees were!

What I can disclose (without breaking my commitment) is that I collected data from three different government financial regulators that are perceived to control the regulation of audit practices. A total of nine interviews was conducted with the three regulators. Details about the nine meetings are in Table 7.

Number of interviews	Institution/Organisation
2	State financial regulator (a)
3	State financial regulator (b)
4	State financial regulator (c)

Table 7: Interviews with state financial regulators

#### **5.4.4. Data analyses**

For qualitative data, there are various strategies for analysing non-numerical (verbal) data, for example, grounded theory, discourse analysis, or content analysis. However, as I am following a case study method, I understand that my choice of analytical strategy and tool has a direct connection to my epistemological position and research aim. I found the inductive-thematic approach more appropriate to my constructivist position and research topic.

This section explains how I performed my data analysis which was concurrent with several personal judgements I made to render my findings possible. First, I depended on transcripts with their original language. Second, I chose a theory-driven analytical strategy. Finally, I used a thematic technique and procedures to analyse my data. That being said, I depended mainly on thematic analysis procedures described by (Braun and Clarke, 2006).

Yin (2014) discussed the risks of using computer programmes to analyse qualitative data, such as the inability to capture complex human behaviours. However, although it would be an excellent opportunity to learn these programmes, to minimise such threats especially with my quite complex investigation and relatively limited number of interviews, I decided to analyse my data manually.

#### **5.4.4.1. Issues with transcription**

Transcripts of the interviews were typed (using the Microsoft Word program) based on the “original” language used in the interviews. To ensure accuracy, I transcribed the exact spoken words that were used during all meetings. Similarly, in a few cases where I was not allowed to record the interview, I transcribed the detailed notes taken during the interview immediately after each interview. However, other than problems often associated with transcription, for example, time consumption (including careful checking and data cleaning), or data (audio and text) security protection issues, I faced a problem which is not covered by the research method and methodology textbooks that I often referred to: the translation of interview transcripts<sup>49</sup>.

Transcripts are vital for the process of analysing the collected data because it is not practical to merely depend on recorded audio. Also, transcription is considered “the early stages of analysis” (Braun and Clarke, 2006, p. 88). However, as my interviews were conducted in the Arabic language and I am writing this thesis in English, I faced the following problem: for analysis

---

<sup>49</sup> These books include: Yin (2014), *Case study research: Design and methods*; Saunders et al. (2009), *Research methods for business students*; Ryan et al., (2002), *Research method and methodology in finance and accounting*, and; Bryman (2016), *Social research methods*.



purposes, should I depend on an Arabic transcript or an English translated version? What are the advantages and disadvantages of each alternative? In fact, I personally found no significant benefit to translating my transcripts into English in relation to my research aim. On the contrary, it may constitute a significant epistemological threat as implied by Spence et al. (2017, p. 561) concerning their Chinese and Japanese interviews<sup>50</sup>.

To give this argument more methodological insight, I found a brief literature that indirectly speaks of a similar problem. For example, Regmi et al. (2010) discussed the translation and transliteration of data in qualitative cross-cultural studies<sup>51</sup>. Regmi et al. argue that:

Sometimes ideas, concepts, and feelings might not always translate exactly from one language to another. It is even possible that in some cases there is apparent contradiction between valuing meaning, on the one hand, and a desire to obtain conceptual equivalence, on the other, which might present a real challenge to the novice (p. 19).

The above quotation alludes to significant epistemological risk. However, I started to translate a couple of transcripts (because many researchers do so) and then realised that there are significant differences in meaning between my interviewee's original reflection and my translation<sup>52</sup>. I realised that depending on an English translated transcript, especially because I did the analysis alone, will spur the loss of collected indigenous meanings and consequently affect the process of my analysis and diminish the quality of my findings.

In an attempt to introduce and create non-English special issues for academic research, Andrew et al. (2019), explained the hegemony of the English language in academic research. They correctly emphasise the risk of losing sociocultural meanings in the process of translating research that examines a

---

<sup>50</sup> Spence et al. (2017) argued that "Not all transcripts were translated into English out of a concern that linguistic and cultural nuances be lost in the process" (p. 561).

<sup>51</sup> Regmi et al. (2010, p. 17) defined translation as "the process of changing something that is written or spoken into another language". For Regmi et al., transliteration "is to write or describe words or letters using letters of a different alphabet or language (Wehmeier, McIntosh, Turnbull, & Ashby, 2005, p.1632)." (p. 17)

<sup>52</sup> I believe every language has its particularities and probably certain phrases and metaphors cannot be translated exactly. However, careful translation might be possible, but it carries tremendous costs (money and time).

social problem in a language setting different than the language of the produced research.

I considered the dilemma of weakening my epistemological position as well as my research project. In my case (as the sole author of a PhD project), I believe the issue of translation is mainly about “trust” (e.g., how would anyone “really” know that transcription/translation was done in the first place? Or that it was done without jeopardising meanings?). Accordingly, I decided to depend on the language used in my interviews for analysing my data and then carefully translate quotations that I used to support my findings (story)<sup>53</sup>.

#### **5.4.4.2. Analytical strategy and procedures**

Yin (2014) argued that the analysis in the case study method is less developed because there is no fixed (codified) formula; it depends broadly on researcher methodology and the type of research objectives. However, being explicit about the process of analysis (strategy and procedures) helps evaluate methodological and epistemological choices (Braun and Clarke, 2006, p. 98 [3])<sup>54</sup>. I believe that being explicit about analysis is difficult, costly (open to never-ending critiques), and maybe less required by academic logics (especially academic journals). But I think it is a progressive form of communication between scholars to advance knowledge.

Yin (2014) argues that the first steps in case study analysis are to define a strategy that guides data analysis. What is meant by analytical strategy is the dynamic that connects and spurs research objective(s), collected data, interpretation of data, and findings. Yin explained four general strategies: relying on a theoretical proposition (deductive), ground-up (inductive), developing the case description, or rival explanations. However, I decided to

---

<sup>53</sup> Thanks to Javier Husillos (Public University of Navarra) for encouraging me to depend on interviews in their original language for transcripts and analysis.

<sup>54</sup> Similarly, Ryan and Bernard (2003, p. 80) criticised researcher ambiguity of analysis and argued, “If we do not know how people went about analysing their data, or what assumptions informed their analysis, it is difficult to evaluate their research, and to compare and/or synthesize it with other studies on that topic, and it can impede other researchers carrying out related projects in the future (Attride-Stirling, 2001)”.

depart from Yin's explanation of analytical strategies for two main reasons. First, Yin's explanation is broad with no detail (especially with regard to patterns analysis). Second, arguably, Yin's explanation of pattern analysis is driven by positive logic(s). Hence, I decided to follow the Ryan et al. (2002) explanation of "pattern model of explanation" as an analytical strategy and the Braun and Clarke (2006) explanation of *themes analytical procedures*.

### *Analysis strategy*

Ryan et al. argue that the pattern model helps to understand the dynamic process of the social world (social practices) through the provision of an empirical explanation of a particular context within a specific social system. Under this research strategy, according to Ryan et al. (2002):

[The] researcher seek[s] to identify a pattern in the case and uses theories to explain the observed relations ... Theories will be used to explain empirical observations, and empirical observations will be used to modify theory. As such there is a two-way interaction between theory and observation (p. 148).

By theory, Ryan et al. (and many methodologists) mean researcher understanding of the problem. However, I depended on two external (to me) theories to direct me to observe and analyse my collected data and to form my perspective on the complexity of the social realm and make connections between my data and my research aim possible. These were Bourdieu's practice theory (including his theorisation of the state) and Halliday and Carruthers' recursivity model. These external theories have helped me through the whole process of analysis from coding to the generation of various levels of themes, as well as the connection between codes and themes. That said, I had to move backwards and forwards between my data and my theoretical framework many times; it was a difficult analytical process.

There are some criticisms with regard to external-theory-driven analysis. For example, Ryan and Bernard (2003, p. 93) argued that although this type of analysis contributes to shedding light on socially important issues, the use of theories to identify themes carries the risk of hindering new and surprising ideas (Chrmaz (1990) cited in; Ryan and Bernard, 2003, p. 94). I guess this is

correct to a certain point, depending on the sophistication of theories in use. However, in external-theory-driven social analysis, the surprises often, I guess, lie in the contextual details. However, social theories “allow us to see the world as it might be” (Suddaby, 2014, p. 408). They also guide us to understand the complexity of the social world.

In the case of my thesis, it would be easier for me to employ a single theoretical perspective or to make significant changes to reduce the challenges of my research aim but at the cost of providing (I think) a “genuine” contribution to the accounting knowledge, especially for full-time PhD students (as I have more “time” in comparison to other academics). Nonetheless, part of the complexity of my investigation lies, on the one hand, in the rich but also diverse data that I collected, aiming to have a holistic understanding of audit regulations (including change). On the other hand, I gathered the world view of key actors within five different (interrelated) fields that form the audit regulations field in Kuwait. This makes analysing the collected data even more complicated--as each field has different dynamics and shared habitus.

### *Analytical technique and emergent themes*

For analysing my collected data, I decided to adopt a thematic instrument. Thematic analysis has been argued to offer a “flexible” approach (to various methodologies and different inquiries) to analyse qualitative textual data and to provide an understanding of the problem under investigation (Braun and Clarke, 2006; Ryan and Bernard, 2003). Although this particular analytical tool is widely used in qualitative research, its flexibility is one of its significant weaknesses as it is problematic to standardise (codified) thematic procedures (Bryman, 2016, p. 570). Also, according to Braun and Clarke (2006, p. 97), thematic analysis has limited interpretation power if it is not backed with a theoretical framework. However, as there is no systematic way to perform thematic analysis, I decided to follow the guidelines offered by Braun and Clarke (2006).

For Braun and Clarke (2006), “Thematic analysis is a method for identifying, analysing and reporting patterns (themes) within data” (p. 79). However,

patterns are not only limited to semantic repetitions of data but also, more importantly, especially for constructionists, a combination of thematic approaches (e.g., repetition, similarities and differences, transitions, metaphors) as well as considering the analysis of latent data across data-sets to *search for patterns of social meaning* that are important for the research aim (Ryan and Bernard, 2003).

Braun and Clarke (2006) explained six phases for thematic analysis, which I followed (see Figure 9). However, during my analysis process, I found that there is no sequential demarcation between the phases (especially between phases 2 to 5). In refining my findings, I had to go through these phases (sometimes) in non-sequential order.

Phase	Description of the process
1. Familiarizing yourself with your data:	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
2. Generating initial codes:	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
3. Searching for themes:	Collating codes into potential themes, gathering all data relevant to each potential theme.
4. Reviewing themes:	Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic 'map' of the analysis.
5. Defining and naming themes:	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme.
6. Producing the report:	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis.

Figure 9: Phases of thematic analysis

Source: (Braun and Clarke, 2006, p. 87)

By following these phases, Appendix 5 offers the final analytical map that led me to define my overall story on how and why Kuwait implemented “modern” audit regulations. I found six overarching themes to help achieve my research aim. Four general themes related to “how” Kuwait modernised its audit regulations and two themes on the “why” modernisation took place.

On the “how”, the first theme reflects the dynamic of bureaucratic conflicts between the newly established regulator and two other state regulators that used to collaborate in regulating the practices of corporate audit. The second theme emerged concerning the bureaucratic strategies employed by the new regulator to lead the capital market audit regulations space.

The third emergent overarching theme concerned the confrontation between the newly created regulator and the audit field over the modernisation agenda of auditor practices. Two sub-themes had been generated by analysing my data--first, reasons for the audit field actors to resist the new regulator's modernisation agenda. Second, the strategies that the audit field followed to obstruct changes to institutionalised practices and the audit field structure.

The final theme on how Kuwait modernised its audit regulations is related to the implication of resistance between the new regulator and influential auditors who dominate the audit field. In this regard, three sub-themes emerged. First, containing conflict on the end of the new regulator in pursuit of its international integration agenda and considering the audit profession in the design of any (future) regulations. Second, customising audit rotation. Third, the underpinning reasons for the silence of auditors on the new regulator's complete prohibition of non-audit services.

Regarding why Kuwait was eager to modernise audit regulations as part of broader international best practices-driven reform to its capital market, I found two overarching themes. The first is related to the weak (national and international) reputation of the Ministry of Commerce (the Audit Law enforcer) to regulate and oversee auditor practices. Although this finding is a result of several sub-themes, the infiltration of auditors in the Ministry of Commerce steering activities was the most salient one.

The second emergent theme that helped to understand why Kuwait modernised its audit regulations is related to my interviewees *doxic* belief in Western-driven international practices. My data analysis suggests that such radical belief is a result of continuous pressure of external forces to frame local understanding, a potential solution to overcome what is perceived as "ineffective" local government, regional competition, and for national security purposes.

I believe I collected a rich set of data from key actors who produce and consume regulations of external audit practices. However, reflecting all my findings in one research project is way beyond my ability in a PhD thesis, with

its time and size constraints. Nonetheless, having holistic data on the audit regulations and their changes helped me to go deeper in my analysis.

There are two general themes I decided not to reflect in this thesis, although they informed my overall understanding of audit regulatory dynamic and change: first, detailed explanation of the dynamics of the audit field in Kuwait. This theme helped me understand how actors who dominate the audit field accumulate capitals and their strategies to maintain their symbolic status. Second, the regulators' system of overseeing auditor practices (e.g., inspecting the work of auditors). This theme helped me to understand how the Kuwaiti government perceives the purpose of the external audit function as a mere social instrument to legitimise the practices of influential social groups. The story of oversight extends to explaining how influential auditors use the disciplinary framework in their battle for transcending the audit field. Nevertheless, the Kuwaiti regulatory audit architecture is designed to provide an exit strategy for influential auditors to “escape” any complaints of misbehaviour. I decided to leave the two themes for future research.

Now I move to conclude this chapter.

## **5.5. Chapter conclusion**

In this chapter, I started by explaining my understanding of the research philosophy. I depended mainly on the work of Burrell and Morgan (1979) to explain the realm of social theory. I argued, based on Burrell and Morgan's theorisation, that philosophical paradigms are the outcome of the intersection of two axes. A horizontal pole on the nature of social science and its related ontological, epistemological, axiological, and methodological assumptions. The vertical axis represents the nature of society. Burrell and Morgan identified two extreme assumptions in the social world. The sociology of regulations postulates order and unity, disregarding social classifications, inequality, and repression. The underlining assumptions of the sociology of radical change challenge the taken-for-granted arrangements, meanings, and order to develop a fairer world. However, the intersection between the two axes

represents Burrell and Morgan's four philosophical paradigms. In this section, I focused on radical paradigms and provided scholarly critiques accordingly.

In the second part of this chapter, I illustrated my philosophical assumptions on the nature of social science as well as my assumptions about the nature of the society. This arguably positioned me as a (radical) constructivist based on Burrell and Morgan's social theory. Also, I explained my axiological proposition, including the value of research (to develop a better world) as well as the nature of audit knowledge. I argued that audit regulations and practices are political in nature and a site of power between a nominated group of social actors who work individually (as auditors) or collectively (as a profession) and powerful groups within a state (e.g., the government and ruling class). Each tries to use the other to advance its own interests.

The last part of this chapter provided the process that made my findings possible. I followed a research inductive strategy and argued that case study is the most suitable approach for my research problem. I then moved to provide some details on the preliminary interviews I conducted that aimed to set my field of investigation and test the ability to access the audit regulations field. However, as I was open to ideas, the preliminary stage helped me to find an area of interest.

I then explained my main interview phase. I identified and approached key local actors who practice the design as well as the implementation of audit regulations (including the politics surrounding this process). The design of my interview protocol, which was generated based on prior literature, review of various documents, and Bourdieu's ideas (especially his field concept), included a predetermined set of inquiries that covers four broad themes. First, the dynamic of the audit field. Second, the relationship between audit regulators and the audit field. Third, the modernisation of audit regulations. Finally, the localisation of Western systems to Kuwait. I purposely aimed to collect as much data as possible to have a holistic understanding of the practice of regulations and their change.



The last part of this section illustrates my data analysis. I explained an issue I faced concerning the translation of my interview transcripts. I decided, for my analysis, to depend on the language used in my interviews, Arabic. However, to pursue the analysis of my collected data, I adopted the analytical procedures of thematic analysis offered by Braun and Clarke (2006). Finally, I provided a summary explanation of the emergent overarching themes. I clarified that through analysing my collected data, I was able to generate six general themes to help explain how and why Kuwait modernised its audit regulations. Four overarching themes related to the how question and two themes concerned the why.

The following three chapters represent my findings.

## **6. CHANGES TO THE KUWAITI AUDIT REGULATORY STRUCTURAL ARRANGEMENTS**

### **6.1. Introduction**

In modernising the dynamic of audit arrangements, prior studies focused on conflict (underpinned by corporatist logic) between the newly created “independent” oversight regulator and the audit profession (Canning and O’Dwyer, 2013, 2016; Caramanis et al., 2015; Hazgui and Gendron, 2015; Malsch and Gendron, 2011). The situation in Kuwait is different in the sense that the audit profession was (and is) a state regulated profession. Except for the application of international accounting and auditing standards, the Kuwaiti state regulates every aspect of the audit profession, including the accountancy body. However, to pursue the explanation of what I found in this regard, it is worth noting that I classified my findings into three chapters. This chapter aims to explain changes to the Kuwaiti regulatory arrangements. Chapter seven will provide the dynamic of struggle to modernise the audit regulations. And chapter eight will clarify the outcome of the conflict.

This chapter is classified into three sections. The first section explains the Kuwaiti audit regulatory arrangements before the change. Within this section, I aim to explain the regulatory audit framework and the underpinning laws that authorised the Ministry of Commerce to dominate the audit regulations field.

The second section of this chapter demonstrates the interference of IOs in framing the Kuwaiti understanding of the capital market reform (including external audit) based on international best practices. In this section, I will show the level of criticism of the World Bank and the IMF on the Kuwaiti regulatory framework. I will also provide their proposals for structural changes. Additionally, I will explain my findings on why the Ministry of Commerce (the audit law enforcer) was perceived to be weak in its corporate audit oversight function.

In the third section, I intend to provide four important aspects - first, the internationally driven changes to the Kuwaiti capital market regulatory

framework. Second, further interference of IOs on potential bureaucratic overlaps with other state agencies. Third, the new regulator's programme to change capital market audit practices. Lastly, my findings on why Kuwait followed an internationally driven modernisation agenda.

## 6.2. Section 1: Audit regulatory framework before modern reform

This section is dedicated to explaining the audit regulatory arrangement before attempts to modernise auditor practices and related structural changes in Kuwait's regulatory framework. The pre-reform structure is essential as it helps to explain the inherited power of regulatory practices as well as the foundational reasons for conflict over regulatory power (see Chapter 7).

Before the enactment of the new capital market regulator, the audit of listed companies used to be "directly and indirectly" regulated by four institutions, with different levels of authority. Regulation was administered directly through the Ministry of Commerce and indirectly through CBK, the accounting association, and the KSE Market Committee. A brief explanation of the regulatory responsibilities of the four institutions are found in Table 8.

Direct and indirect participants in regulating audit practices (before change)	Regulatory authorities
The Ministry of Commerce (direct)	<ul style="list-style-type: none"> <li>- Enforces the Audit Law of 1981 and the Companies Law of 1960</li> <li>- Licences and regulates all external auditors</li> <li>- Required auditors to follow international accounting standards/IFRS and international standards on auditing since 1990 (enforced in 1991 post Kuwait invasion)</li> <li>- Demand companies to submit audited financial statements for review for arranging general assembly (in case of shareholding companies) and for renewing company licenses (for other types of companies).</li> </ul>

	<ul style="list-style-type: none"> <li>- Significant influence on the decisions of the KSE Market Committee which they chair</li> </ul>
Accounting and auditing association (indirect)	<ul style="list-style-type: none"> <li>- Limited authority in regulating the audit profession</li> <li>- The audit law gave the association certain responsibilities which help it to survive</li> </ul>
The Central Bank of Kuwait (indirect)	<ul style="list-style-type: none"> <li>- Has its own criteria of audit firms to audit banks (mainly the Big 4)</li> <li>- Banks must obtain central bank approval before general assembly approval in appointing new external auditor(s)</li> <li>- Review/approve banks' audited financial report before public announcement</li> <li>- Required banks not to purchase "accounting related services" from their external auditors</li> <li>- Required banks to have policies for auditor rotation</li> <li>- Other than financial audit, CBK requires banks to provide two audited annual reports, one on the internal control system and one on the lending portfolio. Both reports are required to be performed by an audit firm (other than the banks' external auditors), subject to central bank approval on the nominated audit firm</li> </ul>
Kuwait Stock Exchange Market Committee (indirect)	<ul style="list-style-type: none"> <li>- Check the application of the Companies Law Amendment of 1994 concerning joint audit requirements for listed companies</li> <li>- Some periodic profitability announcements, accounting disclosure requirements for major transactions, as well as accounting implications for judiciary rulings</li> </ul>

Table 8: Summary of participants' roles in regulating auditors practices before change

### 6.2.1. The Kuwaiti Ministry of Commerce

The Ministry of Commerce is responsible for regulating, overseeing, and facilitating commercial and industrial activities in Kuwait. Part of its diverse responsibilities is the enforcement of the Companies Law for (all) types of private businesses as well as the Audit Law for (all) external auditors. Within the context of external audit, the Ministry of Commerce's legal responsibilities go from preparing and organising the audit licence exam, to licencing and

registering auditors, to renewal of these licences, and the disciplining of auditors.

Before the capital market reform, the Ministry of Commerce used to have a significant involvement and influence in regulating the stock market through the KSE Market Committee (see Section 6.2.4). It also occupied one seat (of eight) on CBK's board of directors. The Minister of Commerce, in addition to her/his responsibility for the Ministry, also had parliamentary responsibility for the decisions of the KSE Market Committee. The Minister of Commerce and her/his deputy, post-Kuwait constitution, are often appointed (by the *Amir* based on the recommendation of the prime minister) from outside the Alsabab royal family.

The Ministry of Commerce regulates auditors through two laws. First, the Companies Law of 1960 (reformed only in 2016, see Section 7.2.1.3) which defines the relationship between the Ministry of Commerce, company owners and management, and external auditors. Second, the Audit Law of 1981 regulates the practices of external auditors, and has never been modified. Both laws empowered the Ministry of Commerce to regulate and oversee auditors. Detail on these two laws are in the next section.

#### **6.2.1.1. Audit in the Companies Law of 1960**

The Companies Law of 1960 was the first law to regulate private commercial activities in Kuwait. It was enacted due to the increase in shareholding companies motivated by the oil operations of Anglo-American companies in Kuwait (see Section 3.5.1). All shareholding and limited liability companies, according to the Companies Law of 1960, are required to have external auditor(s). This law created a market for statutory external audit. The Companies Law defined auditor responsibility:

[T]he external auditor shall be responsible for the accuracy of the information contained in their report as an agent for the total number of shareholders, and each shareholder during the convening of the

General Assembly may discuss and clarify what is stated by the auditor (Article 165).<sup>55</sup>

With some difference between shareholding and limited liability companies, the meeting of shareholding companies (listed and unlisted) is arranged and supervised by the Ministry of Commerce. According to the Companies Law of 1960 (and its amendments), this meeting should take place within three months of the end of the financial year. Requirements for such an assembly to take place within the legal time frame are a meeting agenda (with defined minimum legal issues to be covered) and the audited financial statements (including auditor report).

According to article 157 of the Companies Law of 1960, as part of the meeting agenda, external auditors “must” be “(re)appointed” annually in every general meeting as well as deciding on their fees<sup>56</sup>. On the day of the general assembly meeting, the board chair or representative, the external auditor, and a representative from the Ministry of Commerce are obliged to attend. In 1994 (post Iraq invasion of Kuwait), the Companies Law was amended to require “all” listed companies to have two joint external auditors, a requirement removed in 2012 after the establishment of the new capital market regulator (see Section 6.2.4).

This is the general governance logic on external audit by the Companies Law. This law was reformed in 2016 and introduced new types of corporate legal vehicles, though still without significant change to the system of corporate audit.

#### **6.2.1.2. Audit Law no. 5 of 1981**

Legally, external audit was regulated since 1962. This first law set the broad registration requirement to be an external auditor. This law was amended in 1963, to achieve two things. First, an initial attempt to localise/Kuwaitise the

---

<sup>55</sup> Translated by the researcher.

<sup>56</sup> The general practice in Kuwait with regard to audit fee decisions is that in the general assembly, shareholders delegate this responsibility to the board of directors.

audit profession. Second, the amendment shifted registration responsibility from the Ministry of Finance to the Ministry of Commerce (see Appendix 3).

The Audit Law of 1981 is still in practice, unchanged, today (see Appendix 4). It clarifies detailed licencing requirements (licenses granted by the Ministry of Commerce), regulates the practices of auditors (duties and responsibilities), and empowers the system for audit regulatory oversight within the Ministry of Commerce. The Audit Law empowered the Ministry of Commerce to be responsible for regulating all aspects of audit practice; preparing the licencing examinations, granting audit licences, regulating auditors' practices; and imposing disciplinary actions in the case of misconduct by licenced auditors. Unlike the 1963 amendment that did not specify time limitations on the registration of non-Kuwaitis, the 1981 Audit Law emphasised the Kuwaitisation of the profession. Article 5 of the same law allowed licencing of non-Kuwaitis for only three years, renewable once for a maximum of two years. This mean that five years after 1981, only Kuwaitis were legally authorised to sign off on audit reports.

The Kuwaiti regulatory setting for audit firm(s) is different from the legal rights of private business. A private company is a juridical/legal person that has a legal identity. It can, for example, lend and borrow monies and sue and be sued as a distinct legal entity. Audit firms in Kuwait have no legal personality; legal rights and responsibilities lie on the individually licenced auditor, not firms.

A firm is just a name. Legally it does not exist. We found that the ideal solution is to regulate individual licenced auditors. (Anonymised interviewee)

Civil liability lies on the licenced auditor, not the firm because we do not have a law for audit companies in Kuwait. (SFR2)

The firm represents a licenced individual. We still deal with the firm as a licenced individual. (SFR1)

I was unable to find out about the financial arrangements between the partners inside international audit firm(s) operating in Kuwait nor the legal/financial arrangements between the local (international) firms and their global head

offices (see Sections 8.4 and 8.4.1). With the 1981 Audit Law, the legal responsibility lies on the licenced “individual” who signs the audit report, as the audit law does not regulate the concept of “audit firm”, “partnership”, nor “audit teams”. In fact, the term مكتب in Arabic could be translated into a firm or an office. Articles 2, 4, 20, 32 of Appendix 4, translated the term مكتب to firm or office interchangeably, but the original text of the law (which is in Arabic) means office, not firm. However, in this no-firm legal environment, every licenced auditor is legally responsible for her/his signature (Article 4, Appendix 4).

From 1981 to today, the Audit Law hasn’t witnessed a single change. Unlike the intra-professional struggle in the Western context between international and indigenous audit firms (e.g., Caramanis, 1999, 2002), the logic of the Kuwaiti audit settings results in competition not only between firms, but “more” importantly, between individual auditors. In Kuwait, there are currently approximately 100 functioning individual auditors (with signatory power) licenced with and regulated by the Ministry of Commerce (Alqabas Newspaper, 2018).

In this individual-based regulatory environment, international audit firms (including the Big 4) do exist. The operation of international audit firms depends on the type of arrangements between partners working in Kuwait and the international office of the audit firm. In Kuwait, all my interviewees confirmed that all of the Big 4 are *fully* integrated into their global network (Big-A, Big-B, Big-C, Big-D). Interestingly, the existence and operations of these firms in Kuwait is unregulated! Again, this is because the Audit Law regulates Kuwaiti individuals, not firms. Moreover, the Companies Law (including all its amendments) does not regulate these firms.

The current legal framework allows international audit firms to exist “permanently” despite any local audit crises because the licenced individual is the one legally liable, not the firm, which legally does not exist. Ironically, the global office of each international firm decides who represents them in Kuwait (e.g., partners) without any regulation from Kuwaiti regulators. Not only this,



but the audit law does not regulate auditors who do not sign audit reports. This includes Kuwaitis and non-Kuwaitis. It is worth noting that in the Kuwaiti audit field, the majority of partners in audit firms are non-Kuwaitis with no state regulations to govern their practices (also see Section 8.3).

The Audit Law of 1981 also emphasises the “independence” of auditors by prohibiting providing “any” non-audit services. It stresses independent relations between external auditors and audit-clients (no occupation of managerial functions at any level, ownership, or close blood relationship with an audit-client), as well as prohibiting the advertising of auditor services (more details on the prohibition of advisory services is offered in Section 8.4).

The Audit Law of 1981 empowered the Ministry of Commerce to licence and regulate the audit profession through five committees, each having different functions (see Appendix 4). This legal system indirectly involved representatives from the Kuwaiti accounting and auditing association and other organisations to participate and collaborate in regulating the audit profession under the leadership of the Ministry of Commerce. Table 9 illustrates the structure of these regulatory committees.

	Registration committee	Examination committee	Accounting and auditing steering committee	Disciplinary committee	Disciplinary appeal committee
Responsibility	Reviewing requests for auditor registration with the Ministry of Commerce	Preparing and organising licence exams	Setting technical and ethical standards	Deciding on cases referred by the deputy minister on potential violations of law and professionalism	Deciding on auditor appeals of decisions of disciplinary committee
Notes on committee formation	The characteristics of members are stated in the law	Organisation is decided by the Minister of Commerce	Formed by the Minister of Commerce without a legal reference on membership (within the law)	The characteristics of members are stated in the law	The characteristics of members are stated in the law

Table 9: The Ministry of Commerce committees structure for regulating auditor practices (Part 1)

	Registration committee	Examination committee	Accounting and auditing steering committee	Disciplinary committee	Disciplinary appeal committee
Membership	<p>Chaired by the deputy minister (or someone on her/his behalf)</p> <p>Two members nominated by the accounting association as practitioner auditors</p>	<p>Often members of this committee include representatives from the Ministry of Commerce along with accounting academic professors</p>	<p>Formed by the Minister of Commerce with both permanent and temporary members</p> <p>Chaired by the deputy minister (or someone on her/his behalf)</p> <p>Permanent representation often includes:</p> <ul style="list-style-type: none"> <li>- One representative from the accounting association</li> <li>- One member from the Capital Market Authority (KSE Market Committee before)</li> <li>- One member from CBK</li> <li>- One member of the Ministry of Commerce companies department</li> <li>- One member from the Chamber of Commerce</li> </ul> <p>Temporary members are often audit practitioners appointed by the Ministry of Commerce</p>	<p>Chaired by the deputy minister (or someone on her/his behalf)</p> <p>Two members nominated by the accounting association as practitioner auditors</p>	<p>Chaired by a judge of the High Court appointed by the Minister of Justice</p> <p>Two members appointed by the Minister of Commerce (other than members of the disciplinary committee)</p>

Table 9: The Ministry of Commerce committees structure for regulating auditor practices (Part 2)

### 6.2.2. Kuwait accounting and auditing association

The Kuwait accounting and auditing association (KAAA) is a public welfare association (not a union or political lobby) established in 1973 and regulated by the Ministry of Social Affairs. Altaher et al. (2014) argue that this body has emerged following the traditional concept of *Dewaniya*<sup>57</sup>. Historically, KAAA started as a club at Kuwait University for staff and students (Altaher et al., 2014). Since its official creation, an elected board manages the association. Voters are Kuwaiti members (holders of bachelor's degrees in accounting) registered with the association.

For many reasons, KAAA has minimal power in regulating auditors. For example, first, it has no legal power to directly interfere in regulating auditors; such empowerment is granted to the Ministry of Commerce. Second, members have full-time work elsewhere. Third, limited funding (it survives on membership fees, limited state funding, and donations). Fourth, the law that regulates the public welfare association (Law 24 of 1962) constrains the association's political activities.

The Audit Law of 1981 gave this accountancy body two main responsibilities that helped it survive (see Appendix 4). First, one of the conditions to be a licensed auditor is to be registered with this accountancy association. Second, it requires the association to nominate representatives from the profession in many of the Ministry of Commerce audit regulatory committees (see Table 9).

Beyond this legally “constrained” authority, the existence of this association benefits the regulators as a mediator for communication between the Ministry of Commerce (the audit regulator) and the individually licensed auditor(s), according to one of the interviewees: “The thing that helps us with the presence of the association is that in the event of any correspondence with the

---

<sup>57</sup> *Dewaniya* is a place for men to gather for discussion. While some wealthy individuals/families have a complete house as a *dewaniya*, the place is often a large room “within” the owner's house. Official *dewaniya* usually takes place once a week and the unofficial one is daily. *Dewaniya* is a unique cultural tradition and until today it is fundamental setting of Kuwaiti society. Chay (2016) argue that the history of *dewaniya* goes back to the emergence of Kuwait. In recent decades, *dewaniya* has become popular in other Arabian Gulf countries.

auditors, we send it to the association and they circulate it to members.”  
(Anonymised interviewee)

As the accountancy association has no (direct) power to directly influence change, for many years they strove to change the audit law to acquire more authority as interviewee ABODY explained<sup>58</sup>:

Look, proposing to change the audit law, every board [referring to the board of directors of the accounting body] works on it, and at a particular stage, it stops. Maybe it reaches the Ministry of Commerce and stops. Or if the Ministry of Commerce transfers it to the Department of Legal Advice and Legislation and then stop. Maybe the Department of Legal Advice and Legislation responds to the Ministry of Commerce and then stop. Sometimes it reaches the financial committee [of the parliament] and something happens and then [it is] postponed or stopped ... it depends on the political circumstances; the deputy [deputy of the Ministry of Commerce] retires, the assistant deputy got changed. Sometimes it goes to the parliament, and then it gets revoked. We finished all these stages, and it has been included in the finance committee of the parliament. They are supposed to discuss it in October, but the parliament gets revoked.

As I mentioned earlier, the accountancy association is registered and regulated by the Ministry of Social Affairs under the Social Clubs and Public Welfare Associations Law (24 of 1962). In violating the Public Associations Law, the ministry's cabinet, based on the recommendation of the Minister of Social Affairs, has the power to revoke this association. Not only this, but the Minister of Social Affairs has the ability to revoke the elected board of directors and appoint a temporary board. However, we will see in the next chapter how auditors used the accounting association to confront the new regulator's demands to modernise auditor practices (see Section 7.3.2).

### **6.2.3. The Central Bank of Kuwait**

The Central Bank of Kuwait (CBK) acts as the government bank and is responsible for Kuwait monetary policies. CBK is empowered to regulate commercial banks, investment and currency exchange companies<sup>59</sup>. It has

---

<sup>58</sup> Currently, there are serious attempts by the Ministry of Commerce to change the Audit Law.

<sup>59</sup> In 2011, the responsibility to regulate and oversee investment companies was moved from CBK to the new capital market regulator.

specific criteria for banking external audit. CBK has a board of directors of eight Kuwaiti members headed by the governor of CBK. Other members include the governor's deputy, a representative from the Ministry of Finance, a representative from the Ministry of Commerce, and four members with economic, financial, and banking expertise.

An *Amiri* decree appoints the governor and vice governor for five years (renewable once for the same period), recommended by the Minister of Finance. An *Amiri* decree also appoints the other four expert members for three years (renewable once for the same period), supported by the Minister of Finance's recommendations. The ministry's cabinet appoints representatives of the Ministry of Finance and the Ministry of Commerce. Except for one governor from the Alsabab family (serving from 1986 to 2012), all governors, since the bank commenced operations in 1969, are from outside the royal family, including the current governor.

It is worth noting that the Central Bank Law 32 of 1968 (article 49) states:

The audit of the accounts of the Central Bank shall be entrusted to one or more external auditor(s) appointed by the Council of Ministers, and their fees shall be determined on the proposal of the Minister of Finance.<sup>60</sup>

Interestingly, although CBK is a government institution supervised and audited by the different state audit institutions, Ernst and Young has been the external auditor of CBK since 1968; in 2010, KPMG joined them in this function. Ironically, CBK regulates banking audit that is dominated by the Big 4, and the Big 4 are involved in the audit of the CBK accounts!

#### **6.2.3.1. CBK guidelines for banking external audit**

To avoid conflict with the Ministry of Commerce's legal authority of sole enforcement of the Audit Law, CBK does not regulate banking external audit directly, but requires banks to consider specific criteria for appointing/changing external auditor(s). However, banks are required to obtain CBK approval to change external auditors before proposing the change to the shareholders

---

<sup>60</sup> Translated by the researcher.

assembly, even if the proposed external auditor(s) satisfies CBK guidelines. Both local and foreign banks operating in Kuwait must consider the following guidelines before seeking the approval of CBK for changing their external auditor(s):

- The local audit firm must be a full member with their global office.
- The audit firm international network must have audit expertise in auditing the largest 50 bank(s) in the world.
- Development of banks audit methodology by the audit firm global office.
- The audit firm must have at least one partner and audit staff who have experience in auditing banks as well as professional certification (US-CPA, CA) for bank auditors.
- A minimum of 30 hours of training for bank auditors.
- The global office inspects sample files from the local office to ensure global office policies and procedures are followed.

Interestingly, CBK guidelines recognise “audit firms” despite their legal nonexistence. In Kuwait, there are 11 listed local banks; 10 local banks, and one Kuwaiti owned bank (Ahli United Bank) established in Bahrain and jointly listed in Kuwait and Bahrain capital markets--all local banks are listed. Also, there are 10 foreign banks operating in Kuwait; all are unlisted (e.g., Bank of Bahrain and Kuwait, BNP Paribas, Citibank, HSBC, Muscat Bank, and Qatar National Bank).

As mentioned earlier, in 1994, the Companies Law was amended and required all listed companies to have two external auditors, including (listed) banks. This joint-audit was no longer required with the establishment of the new regulator (and subsequent changes to the Companies Law), but CBK has continued to follow joint-audit logic. For many years, eight of the 10 local banks were jointly audited by Ernst and Young and Deloitte. The other two banks are different. The Commercial Bank of Kuwait used to be audited by those two firms but since a few years ago, it is audited by Deloitte and RSM. This bank is controlled by one of the members of the Alsabah royal family. Nonetheless, Warba Bank-

-the youngest bank, established in 2010 – is audited by Ernst and Young and KPMG, the external auditors of CBK accounts.

#### **6.2.4. Kuwait stock exchange (KSE)**

The stock trading system used to be regulated, operated, and administrated by the state with the support of private brokers and a private clearing system. The KSE used to be managed by a market committee following its reform in 1983, post Souk Almanakh crisis (see Section 3.7.2.1)<sup>61</sup>. This committee is responsible for regulating and overseeing stock listing and trading. By law, the market committee is chaired by the Ministry of Commerce, and it is the highest authority in the stock market. The Commerce Minister recommends members of the market committee and they are appointed by the ministry's cabinet.

An *Amiri* decree used to appoint a manager for the stock market based on the recommendation of the Commerce Minister. The head of the stock market enforces market committee decisions with certain authorities and has responsibilities decided by the market committee. The market committee established three sub-committees that help in managing stock market operations: a disciplinary committee, a disciplinary appeal committee headed by a judge, and an arbitration committee chaired by a judge appointed by the higher judicial council. All decisions taken by the arbitration committee are binding to all parties, including the market committee. With regard to the role of the KSE Market Committee in the external audit of listed companies, its function centres mainly around certain aspects mentioned in Table 8.

As I mentioned in Section 6.2.1.1, the Kuwait capital market used to have a mandatory joint audit system for listed companies, which was removed from the Companies Law in the 2012 amendment. Big-D argued that “joint audit did not make technical nor independence contributions due to differences between audit firms”. The failure of the joint-audit system occurred mainly because the KSE Market Committee did not enforce it properly to ensure that

---

<sup>61</sup> Before the Souk Almanakh crisis, stock trading was regulated by the Ministry of Commerce (see Section 3.7.2.1)



the two external auditors coordinated and cooperated in company audit engagements, as Sikka et al. (2018, p. 79) argued.

Because of the KSE Market Committee's lack of proper enforcement and oversight over the system of joint-audit, the general practice in the capital market was as follows. Non-large listed companies, which represent the majority of listed companies, used to appoint one large audit firm and one small audit firm. The large audit firm performs the audit engagement alone. The small firm merely signs the audit report after its preparation. Accordingly, listed companies pay minimal audit fees for the second audit firm.

For small firms, this abandoned system allowed them to accumulate some economic capital but at the expense of acquiring knowledge and being able to expand. However, it is unclear to me if small audit firms purposely involved themselves in this loose joint-audit model merely to accumulate money, or large audit firms subverted this model to prevent small firms from expanding their knowledge base and competitiveness.

#### **6.2.5. Concluding audit regulatory framework before the changes**

In the first part of this chapter, I explained the audit regulatory framework in Kuwait before the change. There are direct and indirect players who participated in regulating audit(ors) practices within the changed regulatory framework. The Ministry of Commerce dominated the field of regulating auditor practices. However, despite many changes in Kuwaiti social and political life, the Ministry of Commerce continued to sustain order through the enforcement of old laws with no significant changes: the Companies Law in place since 1960 and the Audit Law since 1981. The Ministry of Commerce also controlled the stock market with the same regulatory settings since the early 1980s. Nonetheless, the KSE Market Committee failed to properly enforce the mandatory joint-audit system.

CBK involvement in regulating banking audit was designed not to contradict with the authority of the Ministry of Commerce. Two firms within the Big 4

dominated the external audit of local banks. The accounting association had limited authority to control the audit profession. It merely survived because one of the Audit Law requirements for licensing was to be registered with the local accountancy association. Nonetheless, the Audit Law gave some authority to the accounting association to participate in the regulation of auditors through the Ministry of Commerce controlled audit regulatory committees.

In regulating auditor practices, the Ministry of Commerce's system of governance through collaboration with different interest groups helped it to sustain the no change situation to the regulatory framework. Such collaboration had the merit of benefitting the Ministry of Commerce in avoiding political conflicts, but also benefitted (a few) auditors in influencing regulators' decisions. This regulatory framework was criticised by international organisations as loose and exposed to political interference. Now, I move to cover the second part of changes to the Kuwaiti regulatory framework, the interference of international organisations in criticising the Kuwaiti regulatory arrangements and framing the regulatory understanding.

### **6.3. Section 2: Responses of the IOs to the Kuwaiti financial regulatory framework and reasons behind weak oversight**

IOs (the IMF and the World Bank) started to issue a (publicly available) annual report on the economic policies and development of financial systems for most countries around the world (see Section 1). The IMF periodic assessment report is called Article IV Consultation. For Kuwait, the IMF started to publish the first report in 2001. Similarly, the World Bank issued various types of reports on Kuwait's economy, business regulations, environmental, political and geopolitical issues. Interestingly, the World Bank, as I demonstrated in Section 3.5, based on the request from the government of Kuwait, assessed Kuwait's economy and issued their first report in 1961, immediately post-independence from the protectorate agreement with Britain (IBRD, 1961).

In various projects, the IMF and the World Bank worked together to evaluate countries' systems (e.g., ROSC initiative). ROSC was established in 1999, as an initiative between the IMF and the World Bank to comply with G20 demands aiming to standardise international financial architecture (Halliday and Carruthers, 2009). ROSC assessed countries based on international standards in 12 areas (IMF, 2018; The World Bank, n.d.).

ROSC completed five assessment reports on Kuwait as described in Table 10.

Report name	Year	Report No.
Kuwait: Financial System Stability Assessment, including Reports on the Observance of Standards and Codes on the following topics: Banking Supervision, Securities Regulation, Anti-Money Laundering and Combating the Financing of Terrorism	2004	4/151
Kuwait: Financial Sector Assessment Program—Detailed Assessments of Observance of Standards and Codes—International Organization of Securities Commission (IOSCO)—Objectives and Principles of Securities Regulation	2004	4/352
Kuwait: Financial System Stability Assessment—Update	2010	10/239
Kuwait: Report on Observance of Standards and Codes—FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism	2011	11/267
Kuwait: Financial System Stability Assessment	2019	19/96

Table 10: ROSC reports on the Kuwaiti financial system

Halliday and Carruthers (2009) argued that these reports are publicly accessible so as to pressure countries to standardise their institutions with what Halliday and Carruthers call global (neoliberal) norms. Indeed, most, if not all IMF-World Bank macroeconomic, fiscal, and structural recommendations are neoliberal. They cover four types of market liberation: first, to open “a more appropriate” market for international capital. Second, internally, to empower the private sector over public services, to diversify the economy (through privatisation), and to help the private sector lead the

economy/society. Third, to reform indigenous labour forces to support private capital by providing employment opportunities in private organisations, helping “entrepreneurs” to open businesses, as well as educating them to thrive in the neoliberal economy. Also, the IMF especially always urged development of statistical economic data so that IOs could provide more recommendations, or more accurately, more pressure to adopt neoliberal trajectories.

It is worth noting that starting from their 2010 release, the IMF and the World Bank long before that, began in their reports to compare Kuwait with other Arabian Gulf countries. This comparison, arguably, is another form of pressure for nations to compete against each other on IMF/World Bank terms.

### **6.3.1. ROSC and the IMF structural reform proposals**

Prior to the Kuwait capital market reform of 2010, the two ROSC’s assessments of 2004 disapproved of the regulatory framework of Kuwait’s capital market as well as its system of corporate audit. The first ROSC assessment, dated May 2004, is concerned with Kuwait’s financial regulations and supervision. The second ROSC assessment, dated November 2004, focused on the International Organisation of Securities Commissions (IOSCO) objectives and regulations for Kuwait’s capital market. However, it is worth noting that the first (May) report often refers to the second (November) report.

IOs criticised Kuwait’s institutional arrangements for lack of institutional independence, diffusion of responsibilities between three institutions (the Ministry of Commerce, CBK, and KSE Market Committee), weak financial regulations, loose oversight, absence of accountability, deficiency in developing the capital market, as well as lack of competence of regulatory staff. Concerning Kuwait’s stock market, the following quote provides an example of what these reports say about Kuwait’s financial systems before the change. The first report argues:

Although the law establishes broad mandates for the supervision of the intermediaries in the securities market, the lack of an orderly regulatory framework has led to a significant fragmentation of responsibilities. From a statutory viewpoint, the MC [market committee] is an independent agency, although in practice it is not. The government

appoints the director-general and the majority of the board of directors. The MC has only limited powers to fulfill its mandate, as most licensing, supervision, and sanction powers lie elsewhere [referring to the Ministry of Commerce]. The inspection, investigation, and surveillance powers of the MC and KSE are not adequate and lack a clear process. The power to set technical standards for the market is fragmented and not well coordinated. In addition, the staffing of the MC and KSE needs strengthening to increase efficiency ... The KSE is not, in practice, operationally independent of external political or commercial interference in the exercise of its regulatory and supervisory functions (IMF, 2004a, pp. 36-7).

With the same logic of criticism, the second assessment states:

The review of compliance with the IOSCO objectives and principles reveals that, while some progress has been made in the recent past in the regulatory and institutional aspects of supervision of securities markets, the underlying legal framework remains inadequate and in need of improvement (IMF, 2004b, p. 8).

In current practice, many of the law enforcement agencies (MC, CBK, and MOCI) [market committee, CBK, and the Ministry of Commerce] rely on external auditors more than inspection to monitor compliance by supervised institutions. To ensure the quality of the auditing and particularly the audits of financial intermediaries and listed companies, and pending the amendments of the legal framework, it is suggested that the MC administer and maintain a list of auditors who meet the eligibility criteria developed by the MC (IMF, *Ibid*, p. 11).

ROSC proposed the following structural changes:

Numerous changes are thus needed to bring the securities regulatory and supervisory system into closer conformity with international standards. The following measures are likely to be central:

- The creation by law of a single, independent, and accountable authority with full powers to regulate, supervise, and develop the securities market.
- Rules, regulations, and systems should be developed to deter and detect unlawful and fraudulent practices. Insider trading and market manipulation should be prohibited by law and enforced by establishing an inspection, investigation, and surveillance system.
- The law should clearly define entry standards for all types of market intermediaries and provide for prudential regulations governing their licensing, supervision, and performance. Owners and officers of licensed intermediaries should be subject to fit and proper conditions to be developed by the regulator.

- The regulator should build capacity to enforce disclosure requirements and to examine compliance of auditors and audited companies with internationally acceptable accounting and auditing standards.
- The regulator should arrange for continuing training programs for its staff (IMF, 2004a, p. 14).

Pressure for structural change did not stop at these few assessment reports, but they are repeated (directly and indirectly) in the IMF Annual IV reports until Kuwait, based on these recommendations, enacted Law number 7 of 2010 to establish a new capital market regulator. However, as the Ministry of Commerce used to have a dominant role in controlling both audit regulations and the KSE Market Committee, before I move to the third section, I believe it is proper now to explain my findings on why the Ministry of Commerce was perceived to be weak in its regulatory capacity.

### **6.3.2. A system of collaboration turned into a system of exploitation**

The majority of my interviewees stressed the ineffectiveness of the Ministry of Commerce in improving auditor practices. These claims were related to the broader administrative/bureaucratic responsibilities, that the “old” audit law did not help in performing proper oversight, unqualified staff, the impracticality of the Ministry of Commerce requirements to govern companies (e.g., license renewal requirements and deadlines for arranging company annual meetings) which were argued to help the rise of “fraudulent” auditors, state carelessness in the financial audit function due to the absence of systems for corporate and income taxes, and delays/resistance in reforming the Audit Law. Examples of my findings follow.

The Ministry of Commerce is still a government institution, they are busy with many things ... we are involved in discussions with them [Ministry of Commerce], we tell them your employees do not have the experience, do not have the technical know-how, there is no common language between us. One day we are talking with an employee who reviewed the financials of an insurance company. She does not know what insurance is, she does not know what reinsurance is. We explain once, twice, three times, and then she gets lost. (Big-D)

[W]e do not have [the Ministry of Commerce] standards for oversight, and we do not have the staff that perform oversight. You are talking about large firms with complex engagement. (Anonymised interviewee)

[T]he Ministry of Commerce is dead. At the oversight level, the Ministry of Commerce is dead, dead. (Anonymised interviewee)

The Ministry has a specific ceiling for salaries ... the Ministry for a long time has not been heavily involved in organising the profession because the government does not give it [the audit profession] much consideration. The most important reason for not organising the profession is because there is no tax in Kuwait. Because there is no tax the state does not give it [the audit profession] much care. (SFR2)

Criticising the competence of regulators is often a strategy to resist change (Canning and O'Dwyer, 2013; Hazgui and Gendron, 2015; Malsch and Gendron, 2011). However, other than these stereotypes "*blaming*" the local bureaucratic system *per se*, what has been noticed through linking the findings are voices that "implicitly" argued for "hidden" effects by the infiltration of influential auditors in the Ministry of Commerce regulatory committees to protect and advance their domination interests.

In theorising the economic field, Bourdieu (2005) argues:

Competition among firms often takes the form of *competition for power over state power* - particularly over the power of regulation and property rights ... In their attempts to modify the prevailing "rules of the game" to their advantage, and thereby to exploit some of their properties which can function as capital in the new state of the field, dominated firms can use their social capital to exert pressures on the state and to have it modify the game in their favour (p. 204).

In relation to this, Sikka (2002) and Sikka et al. (2018) in the UK and prior studies on the audit transnational space found that the Big 4 involvement on various regulatory committees influenced regulatory decisions to protect and advance their interests (see Section 2.2.3). Arguably however, auditors do not overtly use these committees to advance their interests, but use various tactics to reach this end (e.g., demonstrate their support for the regulatory initiative, practices that wins regulators' trust, attack the competence of non-Big 4, construct the understanding of regulators about various regulatory issues, and, not surprisingly they may use parliament to pressure/support the Big 4 representations on various regulatory committees).

What happened in Kuwait involved a similar strategy, but at a local level. I found that one of the factors that participated in constraining the Ministry of Commerce's ability to enhance its regulatory function over the audit profession, is partially due to the participation of influential auditors in steering corporate audit functions and regulations. This infiltration tactic has been mentioned by interviewees:

[T]here are people involved effectively in this committee. ... [name] as an auditor, in a certain period ... [name of an auditor], ... [name of an auditor] in a certain period but did not continue. Only ... [name of an auditor] continued. (SFR1)

Those sitting at the top of the audit field participate in the Ministry audit steering committee for long periods. This audit steering committee, which is required by law, is responsible for managing accounting and audit (technical and ethical) issues (see Table 9), had been used to deciding on regulatory issues outside its agenda.

[T]he last meeting was the first time I attended the Ministry committee. They are discussing items in their last meeting minutes. Many issues are irrelevant ... it is not part of this committee ... They discuss the contents of the audit file and how the Ministry of Commerce looks at these files. This is not part of this committee's function. (Big-A)

In Kuwaiti social settings and probably elsewhere, as argued by Bourdieu (2005, p. 204) theorisation of the economic field and the importance of social capital in influencing bureaucratic decisions, it is not very difficult to influence the government decision on who participates in such steering committees, especially because the audit law did not define membership in this committee (see Table 9, Appendix 4). Social relationships mainly guide these decisions and sometimes political bargains (which are also infused by social relations), and both demonstrate the importance of social capital at the sociopolitical and socioeconomic spheres. However, one of the main interests for specific auditors to be involved in these steering committees is not only to push for regulations that serve their interests but also to be in a strong position to reject unfavourable rules that affect such power:

[H]onestly, without our involvement I do not think the wheel will move, this is in my personal opinion and if it moves maybe it takes a wrong



direction or the raised issues are not delivered in the right way, we play a role in that ... I do not want them to say we are leading, but we play an effective role in this committee. (Anonymised interviewee)

They appear to participate in helping the state financial regulator with its social responsibilities, for free, to guide the perception of the regulator on specific issues as well as to earn their trust:

I proposed to them. I told her, please come and look at my files. At least to make sure that this firm has a file for the client. I know they will not understand what am enclosing [in the files] but at least to see that I audited ... they will go to a firm, and they will find nothing [referring to files] ... they will find a firm but maybe they will not find files. (TIER2)

I wrote and asked the Ministry of Commerce, to promote the profession and the people who are called Bassam [fraudulent auditors], you have to ask for the file of the audit work to make sure, did they do the job or not. ... I raised this issue ... we helped them. We provided them with a checklist. We gave them the contents of the file. We told them just ask for it. (Big-D)

[T]oday I sent a letter to the chairman of the committee with seven or eight issues for discussion. Let us assume: there is a standard called IFRS for SME's. This standard exists but is not yet applied in Kuwait. We wrote specific definitions on the meaning of small and medium-sized companies so that we could use it in Kuwait. (Big-D)

The audit law driven by the Ministry of Commerce's audit disciplinary committee promotes a collaborative relationship between the enforcer of the audit law (the Ministry of Commerce) and auditors to discipline auditors (see Table 9). The logic behind such a disciplinary arrangement is on the ground that audit technicalities are best known by auditors, without considering independence and collegial relationships. In other words, compromising neutrality for "imaginary" technical ability:

This is one of the contradictions. How an auditor who is a competitor within the same profession becomes a judge of me ... this is creating problems, enemies. (SFR2)

[T]he Companies Law did not cover the Ministry inspection on audit nor the Audit Law. Even disciplining auditors is not easy ... the first stage is disciplining and then the appeal. The second stage is more dangerous. The judge does not recognise the existing situation. He depends on the other two people that we appoint from the profession ... what is happening is that as you are my colleague and I know you, and you know me, he [the appointed member from the profession] tries to

influence the judge through not disclosing the matter transparently. This is a problem we are facing. (Anonymised interviewee)

For me, it is clear that influential auditors participate in weakening the oversight ability of the Ministry of Commerce through intervening in two pivotal oversight committees: steering and disciplinary. My emphasis on “influential auditors” is because not just any auditor has enough social capital to enable her/him to continuously participate in the Ministry of Commerce steering committee. Additionally, it is illogical (power-wise) that an audit member of the Ministry of Commerce-led disciplinary committee could challenge the work of actors that dominate her/his audit field (or the work they authorised with a signature). As we will see in a later chapter, “fear” of the influence of “influential auditors” is one of the instruments of domination in the Kuwaiti audit field (see Section 8.3).

As we saw, it could be argued that one of the major issues for weakening regulators’ capacity to develop auditor practices is the “old” Audit Law. A valid question here could be, as the Audit Law was implemented for a different time and perhaps for different practices, why has it not changed since 1981? I found that large audit firms blamed small firms for resisting change, but large firms also did not believe in the necessity of changing the “old” Audit Law!

Small auditors resist change, and the Ministry of Commerce is not serious about changing the audit law. (Big-C)

What do you want to change? It is a licence law and about auditor rights and responsibilities ... if the proposed changes are minimal, then why should we change it? (TIER2)

[W]hat are you going to change that will add [value] to the law? We will enter into details that may actually cause harm. In my opinion, the more you elaborate, the more you create issues. (Big-A)

Shortcomings in the audit law, for example, include: the legal conceptualisation of “firm”, the regulating of partnership and its remuneration, the regulating of expatriate involvement in audit as well as that of unlicensed Kuwaitis, the regulating of advisory services, promoting ethical and moral dogmas in form and substance, the constraining of audit firms’ “global office” to local laws, continuous education, the procedures around changing external auditors,

empowering the audit law enforcer with inspection and sanctions, the redesign of disciplinary mechanisms to remove the involvement of auditors, definition of auditors' social responsibilities, maximum working hours, and training.

All these unregulated areas are significant shortcomings in the Audit Law that the audit profession sees as less important or, more accurately, threatening the way current order is maintained within the audit field as well as the way they accumulate economic capital. Even the majority of these examples of shortcomings are not covered in the latest proposed changes to the Audit Law (for details see Alanba, 2016). However, despite the profession's minor proposal for reforming the Audit Law, changing it does not occur in isolation from the political field, as discussed by ABODY (see Section 6.2.2).

The Ministry of Commerce could not put forward a law which would not please those who practice it (auditors), as the Ministry is easily exposed to political (parliamentary) disputes. Also, the changing of laws goes through the parliamentary system. Every influential auditor or group of small auditors could use their social capital to pressure parliament members to side with their particular interests.

### **6.3.3. Concluding comments on international interference and the exploitation of the audit law enforcer**

IOs increased their interference in Kuwaiti arrangements following the US invasion of Iraq. They issued various and repeated reports criticising the regulatory framework and proposed alternative structural solutions. Their criticism mainly surrounded lack of order in financial regulations, lack of independence of the stock market as the Ministry of Commerce had significant influence over its operations, no clear sanctioning procedures, and regulator exposure to political interference. They pressured Kuwait, especially through the IMF periodic reports, to create a specialised regulator to reform all aspects of the capital market, including the practices of external auditors.

In the audit regulations domain, my findings suggest there were many causes that weakened the oversight capacity of the Ministry of Commerce. The most

salient reason is the “old” Audit Law and the long-time presence of some of the influential auditors on these committees. So while the law and the Ministry of Commerce encouraged the involvement of various social groups to collaborate in regulating auditor practices (under the leadership of the Ministry of Commerce), probably as a strategy to avoid conflict, the result was a worsening of the reputation of the Ministry of Commerce’s oversight capacity.

Instead of collaborating with other social groups to progress the social responsibilities of auditors, influential auditors exploited these committees to advance their interests, reject unwanted regulations, and frame regulator understanding on financial and regulatory issues (see Section 8.4.1). Nonetheless, as my findings suggested, influential auditors blamed small audit firms for resisting reforming the audit law, while at the same time refusing to believe themselves that there were major issues that required changes to the “old” Audit Law.

Now I move to the third section of this chapter, the regulatory change.

#### **6.4. Section 3: Modernising Kuwait’s capital market and the further interference of IOs**

Following the local implications of the global financial crisis (Section 3.7.2.3), and the involvement of IOs to influence framing of the regulatory arrangement, in 2010 Kuwait reformed its capital market and enacted a new regulator (the CMA) to take over capital market regulatory responsibility from the KSE Market Committee. Such regulatory change resulted in ending the KSE Market Committee functions. The explanatory memorandum of the enacted law supported all the arguments in section 2 about the pressure of IOs.

[I]t is appropriate to establish an authority for the capital markets in the State of Kuwait to serve as a basic element of the capital markets and act as a balancing part among the various elements of these markets, while exercising control and ensuring the soundness of their operation. The capital markets in the State of Kuwait lack such authority and, in certain circumstances, no other entity performs the proposed functions of the Authority, although the Ministry of Commerce and Industry occasionally performs these functions. Indeed, most of the studies that addressed the question of reforming and developing Kuwait Stock

Exchange have concluded that this approach be followed. This approach was also recommended by various studies undertaken by the concerned international organizations, particularly the International Monetary Fund (CMA, 2010, pp. 61-2).<sup>62</sup>

The newly established regulator was empowered to be responsible for regulating and supervising all aspects of securities activities (listed and non-listed). The enacted law also empowered the new regulator to be responsible for regulating investment companies. This resulted in moving the power to regulate and oversee investment companies (both listed and non-listed) from CBK to the new regulator.

The newly created regulator is managed by five commissioners appointed by an *Amiri* decree based on the recommendations of the Minister of Commerce. Also, within the five commissioners, an *Amiri* decree decides on the chair and vice chair of the new regulator. Appointments are for four years, renewable once for the same period. The new regulator was chaired by the KSE general manager until 2014 (see Section 7.2.1.5).

Unlike the KSE Market Committee headed by the Ministry of Commerce, the Minister of Commerce continue to be politically responsible for the new regulator, but has no direct involvement in regulating the activities of the new regulator (see Chapter 7). Also, the financial resources of the new regulator come from the fees collected from different parties involved in the activities of the capital market. Shortages in the new regulator's annual budget are covered by the government.

Similar to the situation of the CBK (Section 6.2.3), Law no. 7 of 2010 requires the new regulator to have an external auditor, other than state auditors:

The Authority shall maintain proper books of accounts and records relating to its revenues, expenses, assets and liabilities and all transactions related to the Authority. The Authority shall have one or more independent auditors (Article 22).<sup>63</sup>

---

<sup>62</sup> Translated by the researcher.

<sup>63</sup> Translated by the researcher.

The CMA external auditor used to be Deloitte and then changed to KPMG. Interestingly, KPMG's office is located in the same building as the new regulator, Alhamra Tower, one of the most prestigious privately owned commercial buildings in Kuwait!

To separate the trading administration from oversight, the 2010 law empowers the new regulator to (also) work on privatising the stock market after completing its corporatisation and accepting the best bid for an institutional investor with experience in capital market operations. Fifty percent of the privatisation project is open for the public to subscribe/invest. That said, only in early 2020 was the privatisation project of the KSE completed.

In general, the law aims to regulate and develop the capital market based on aspects raised by the 2004 ROSC assessment reports, including the external audit of companies. Suddaby et al. (2007, p. 355) argued that advancing embodied transnational logics is often accomplished through attracting regulators to be members in international networks. This occurred in Kuwait, where the new regulator aimed to incorporate Kuwait's capital market for membership in IOSCO and to promote the ranking of the capital market from developing to emerging on specific international indices (i.e., FTSE Russell, S&P Dow Jones, MSCI). These capital market ranking agencies depend not only on the amount of liquidity within the capital market and the sophistication of financial instruments (to incentivise financialisation), but also the broader capital market governance practices as well as membership in international clubs such as IOSCO that diffuse standardised forms of governance in capital markets. However, immediately after the announcement of the "aim" of the Kuwaiti regulatory restructure to integrate its capital market with the international system, ROSC issued its 2010 assessment and provided additional recommendations.

#### **6.4.1. Proposal of ROSC 2010 assessment**

After the enactment of the new capital market law in 2010, IOs supported this reform as they had encouraged this movement for many years. Nonetheless,

the ROSC 2010 assessment provided additional proposals to assist the new structural changes:

The creation of the CMA [Capital Market Authority; the new regulator] is a significant step forward, but it raises important issues about the division of labor with the CBK. The CMA Law grants broad regulatory and monitoring powers over most ICs [investment companies] activities to the CMA, including licensing and issuing quantitative and qualitative regulation for securities businesses and prudential requirements for ICs themselves. There is, however, significant potential for regulatory and supervisory overlaps and gaps, which need to be addressed to ensure effective oversight. In particular, the CMA Law is unclear on the respective responsibilities of the CBK, CMA, and MOCI [Ministry of Commerce]. In the future, the CMA is expected to take the lead on market conduct-specific aspects of securities operations. This includes client administration, separation of assets, complaint handling, client relations, insider dealing, price rigging and conflict of interest and compliance. However, the law is not clear on whether the CBK or the CMA will take the lead on prudential regulation (solvency risk management, financial guarantees, capital, and large exposure reporting/limits) and general operational aspects (such as organizational structure, strategy, reporting lines, and internal controls) (IMF, 2010, pp. 22-3).

The above quotation emphasised the ROSC's urge to solve regulatory overlaps between the three regulators: the newly established regulator, CBK, and the Ministry of Commerce. Also, it signalled the support for the new regulator to lead the capital market oversight activities.

IOs deal with bureaucratic agencies as movable objects without any consideration to their inherited authorities or even inherited contradictions within these agencies. In other words, IOs alluded to potential regulatory conflicts between the three state financial regulators, without explaining how to solve these institutional conflicts because, at the end of the day, what mattered most to them is the "form" of institutional arrangements. Now I move to explain the reform of audit regulations in the new structure of the Kuwaiti capital market.

#### **6.4.2. Reforming the external audit of the capital market**

The new regulator targeted the application of international best practices to develop its capital market practices and to be admitted as a member of IOSCO

as a first step toward an agenda to promoting the international ranking of Kuwait's capital market. Among various provisions for modernising the capital market system, in June 2011 the new regulator, despite the practiced audit law and the (sole) legal authority of the Ministry of Commerce, issued its first corporate audit system (details in Appendix 6).

As per the new audit regulations, no legally licenced auditor is allowed to engage with the capital market companies unless s/he is registered with the new regulator. Nonetheless, for an auditor to be registered, there are conditions that need to be satisfied.

Registration with the new regulator allows external auditors (firms) to enter the re-designed market for external audit not only for listed companies but all non-listed companies under the oversight of the newly established regulator (e.g., investment fund and non-listed investment companies). However, albeit the many requirements for the new system (illustrated in Appendix 6), the new regulator also demanded the implementation of new (to Kuwait) (modern) regulatory ideas such as, for example, auditor rotation. As we will see in the next chapter, such demands ignited social conflicts not only between the new regulator and auditors, but also inter-governmentally, between the new regulator and other regulators (the Ministry of Commerce and CBK) that used to collaborate in regulating auditor practices themselves.

This new capital market audit system witnessed three changes after its first publication in 2011 (all changes illustrated in Appendix 6). The first major change was in December 2012, and in 2015 further minor changes occurred as part of broader changes to CMA bylaws. In 2019, after the analysis of the collected data was completed, a further "minor" change (concession) occurred in the capital market audit system (see Appendix 6).<sup>64</sup>

Before I move to the next two chapters that continue explaining *how* Kuwait modernised its capital market audit regulations, the following section explains

---

<sup>64</sup> The 2019 amendment mentioned in Appendix 6 was minor but proved part of the findings of this thesis. It mainly removed the constraints on the number of clients per audit manager and further reduced the Kuwaitisation demand (see Section 7.3.1).



my findings on *why* Kuwait took such international-driven trajectory and aimed to integrate its capital market with the international system.

#### **6.4.3. Kuwait's *doxic* submission to Western (international) practices and supremacy**

I have dedicated two interview queries to help understand the internationally-driven Kuwaiti modernisation programme (see Q17, Q18, Appendix 2). From Bourdieu (1990):

Practical belief is not a “state of mind”, still less a kind of arbitrary adherence to a set of instituted dogmas and doctrines (“beliefs”), but rather a state of the body. Doxa is the relationship of immediate adherence that is established in practice between a habitus and the field to which it is attuned, the pre-verbal taking-for-granted of the world that flows from practical sense (p. 68).

Surprisingly, the majority of my interviewees expressed similar reasons for complying to Western-driven international practices and replied with either a surprising comment or a question: *why do you want to re-invent the wheel?*

This is an old argument. The West has research, development, and funding to develop standards. The development of businesses and financial instruments is fast ... it is more advanced and fits the purpose ... why do you want to re-invent the wheel? (Big-B)

Few argued that the pressure of IOs was behind the reform. However, these responses do not indicate criticism of the role of IOs in re-orienting the culture of the society through demands for institutional changes (reform) as argued, for example, by (Halliday and Carruthers, 2009; Section 6.3), but to criticise the government's ineffectiveness in progressing the polity.

If Standard & Poor's and Moody's rate a country, there are many criteria, not only your financial capabilities. What is your financial legislation, if they saw your financial institutions are rubbish or your central bank does not apply Basel, all will affect your rating. Kuwait was paused because of the money laundering issue. They forced Kuwait [to change]. Do you think Kuwait wanted to establish a money-laundering unit? It was imposed ... you are a country that submits to forces, you do not impose anything. Look, if you have money and you are a fool, it is different than if you have money and you know what to do with it. (Anonymised interviewee)

They [decision makers] do not wake up until crises happen. If no disasters happen, they will continue to do the same until Judgment Day. Unless it is externally imposed ... government institutions should be under more oversight than the private sector. In the private sector, people worry about their money. This is public money. Neither the government worries about the country's money nor do responsible people worry about the country's monies. The private sector does because it is private money, they want to maximise their profits as much as possible. The government is a disaster. (Anonymised interviewee)

My interviewees *doxically* submitted to unified international solutions, reform based on Western (best practice) logic is expected to solve Kuwait social problems. One of the central reasons that underpin such rationalisation, as argued by some of my interviewees, is the government incompetence to create progress in the social sphere. I believe that the questions “why implementation” and “why late implementation” are related. I aim to discuss these findings in further detail in the Discussion Chapter (see Section 9.5).

## **6.5. Chapter conclusion**

This chapter provided a comprehensive explanation of the Kuwaiti audit regulatory framework. To do so, I classified this chapter into three sections. Section one clarified the regulatory arrangement before international pressure to change auditor practices within the capital market. Pre-change, the regulations of external audit used to be solely under the responsibility of the Ministry of Commerce. On the one hand, the accounting association was authorised by the “old” Audit Law to have some involvement in supporting the function of the Ministry of Commerce regulatory committees. On the other hand, CBK, so as not to contradict the authority of the Ministry of Commerce, did not interfere directly, but through banks. It required banks to consider specific criteria for external audit (firms) before seeking the approval of CBK to change external auditors.

I explained that the Ministry of Commerce regulates auditor practices through two laws--the Companies Law of 1960 and the Audit Law of 1981. I also demonstrated how the Ministry of Commerce enforced the Audit Law through regulatory committees that it controls. I argued that the involvement of and collaboration between different parts of society helped the Ministry of

Commerce maintain its system of domination over audit regulations without change since the early 1980s.

Things started to change when the IOs introduced their vision of regulatory arrangement to Kuwait, which framed the understanding of the Kuwaiti decision makers as well as of society. In section two, I explained how the World Bank and the IMF responded to Kuwait's regulatory arrangements. I also provided some direct quotations to show the level of criticism and their proposals for institutional changes. Additionally, within section two, I demonstrated my findings on why the audit regulator (the Ministry of Commerce) was argued to be weak in its oversight capacities. There are various reasons, but I think the core cause is the continuous operation of the "old" Audit Law. This law probably was implemented for a different time and practice set. The law encouraged the Ministry of Commerce to incorporate different fields, and this system of collaboration was exploited by influential auditors to advance their interests. In return, auditors, both more and less influential, resisted changes to this "old" system.

With the social implications of the global financial crisis of 2007/8 on Kuwait, the country followed the recommendations of IOs and reformed its capital market regulatory arrangements accordingly. Kuwait created the CMA (the new regulator) to reform the capital market activities based on "international best practices", including the external audit function of the capital market companies.

With the creation of the new regulator, in the third section I demonstrated how IOs further interfered to raise issues of potential local conflict over regulatory power between the new and other financial regulators. I also explained the new regulator programme to modernise external audit practices of the Kuwait capital market.

In the last part of section three, I showed my findings on why Kuwait modernised its regulatory arrangements. I found two related reasons that underpin such a logic--first, the radical belief of society in the supremacy of Western practices. Second, the realisation that change was due to

international pressure. Nonetheless, international technologies are expected by my interviewees to be a potential solution to ineffective Kuwaiti government. I aim to elaborate on these findings with more detail in the discussion chapter.

The next chapter presents the second part of my findings. It will focus on the conflict between different bureaucratic agencies as well as the audit field over changes to the regulatory framework and the practices of external auditors.



## **7. CONFLICTS ON MODERNISATION OF AUDIT REGULATIONS IN KUWAIT**

### **7.1. Introduction**

With the interference of IOs in Kuwaiti regulatory arrangements and the negative reputation of the Ministry of Commerce, a new specialised regulator, the CMA, was established to modernise the capital market and corporate audit. The new regulator aimed to reform and integrate Kuwait's capital market with the international system. It also aimed to satisfy the membership requirements of IOSCO and worked to promote the ranking of Kuwait's capital market from developing to emerging market on particular international indices (i.e., FTSE, S&P, MSCI).

Within the context of corporate audit, the new regulator did not have the power to overthrow the Audit Law that empowers the Ministry of Commerce to decide who may be nominated as an auditor as well as its authority to regulate and oversee the audit profession. To bypass this regulatory constraint, the CMA followed the US SOX/PCAOB model by demanding that any auditor(s) wishing to provide services to capital market companies "register" with the new regulator and fully comply with their registration requirements. Also, companies were prohibited from dealing with non-CMA-registered auditors and were threatened with sanctions.

Nonetheless, the CMA, claimed the power to lead (change) the regulations governing auditor practices in capital market companies regardless of the Audit Law system and the inherited (audit) bureaucratic arrangements, legal capacity of other state agencies, and power. These bureaucratic ambitions led to a different type of tension than that discussed in prior studies (see Section 2.5.2). Battles occurred not only between the new regulator and the audit profession, as several corporatist studies suggested, but also extended to include other state financial regulators that had been responsible for audit regulations over many decades.

This and the following chapters intend to explain my findings on how Kuwait modernised its capital market audit regulations. It is worth noting that in my interview protocol, I only had one question regarding conflicts between financial regulations (Q 10, Appendix 2). This theme emerged during the data analysis on questions related to the relationship between regulators and audit firms (see theme 2, Appendix 2).

This chapter is classified into two main parts. The first part starts with an explanation of my findings on bureaucratic conflicts between the CMA and the long-established regulators (the Ministry of Commerce and CBK). In this first part, I also aim to explain my findings on the domination strategies employed by the new regulator to lead the audit regulations of the capital market.

The second part evaluates the audit field's responses to the modernisation demands. I intend to demonstrate the underpinning logic that drove the audit field to resist change and their strategies to confront the implementation of "international best practice" audit regulations by the new regulator.

## **7.2. Part 1: Bureaucratic struggle over how to maintain regulatory order**

Bourdieu (1998a, 1998b) theorised that within bureaucratic policy change, there are two synchronous internal battles in the bureaucratic field. First, there is the vertical battle between high state nobility (higher civil servants) and low state nobility (lower civil servants). Second, a horizontal battle exists between the right hand (economic wing) and left hand (social wing) of the state. Within this structure of inter-bureaucratic conflict, each bureaucratic agency attempts to impose its vision of reality (Bourdieu, 2005). Nonetheless, within the field of government agencies (high state nobility, higher civil service) Bourdieu argued the following;

The field of the higher civil service is the site of a permanent debate on the very function of the state. The civil servants closely associated with bureaucratic organizations oriented toward one or other of the great state functions (ministries, directorate, services, etc.) tend to assert and defend their existence by defending the existence of those bodies and working towards the fulfilment of those functions. But this is merely one

of the underlying causes of the antagonisms that divide the field of the civil service and orient the great political “choices” (Bourdieu, 2005, p. 93).

Bourdieu (2005) also theorised that within this structure of bureaucratic conflict, each agent/agency, in order to impose its vision of reality, uses the help/pressure of external forces to support them in their inter-bureaucratic fight. For Bourdieu, external forces are those that are affected by policy change (e.g., professions, banks, professional associations, building societies). Nonetheless, in the bureaucratic fight, external forces choose to support agencies that protect and advance their interest (see Section 4.3.4). This is what happened in Kuwait.

With the new regulator’s calls for auditors to comply with the new audit system, the Ministry of Commerce did not submit to the marginalising of its power. It resisted and produced tension between bureaucratic agencies, directed against the new regulator’s ambitions to define the financial and audit regulations. In other words, it did not allow the new regulator to impose its vision and transcend the bureaucratic field without a fight:

Alhay’a [CMA, the new regulator] imposed their regulations on us and this is wrong. We fought with them, a big fight, but it was imposed ... they want to regulate auditors alone, independent of the Ministry [of Commerce]. This is the role of the ministry and this is unacceptable. Their law was issued in 2010 [Capital Market Authority Law] our [the Ministry of Commerce] law [Audit Law] was issued in ‘81, this means we are older. The [audit] law does not classify, any other registrars, you [CMA] are in contradiction ... the CMA in their first phase only wanted international firms. We entered a dispute with them, we told them this is not your right. Every licenced auditor should be welcomed, if you have regulations tell them [licenced auditors], you do not have the right to reject them. (SFR1)

One of the main strategies for resisting the new regulator’s challenges was to attempt involving auditors (which they regulate) in this bureaucratic battle to pressure the new regulator to back down:

All their regulations are unlawful. I was surprised that no one legally appealed against them [CMA]. I told them [licenced auditors], “you are the owners of the profession, you all will be harmed.” Now it has become part of the system because they all stayed silent. (SFR1)



The CBK has a different position with regard to the CMA's "registration" demand. For many years before the establishment of the new regulator, the CBK, to avoid contradicting bureaucratic/legal arrangements, was "indirectly" involved in regulating audit by requiring banks to consider specific "firm" criteria to propose external audit change (see Section 6.2.3). The CBK limited the external audit of banks the Big 4.

CBK does not register you [audit firms] like the CMA ... they give the green light on who is acceptable and who is not to maintain, let us say, the standards. (Big-D)

The previous arrangement of the CBK's indirect regulation of banking audit is a practice to override the legal constraints of the audit law that solely authorise the Ministry of Commerce to regulate external audit. Probably, such interference did not constitute a direct challenge because it was not done directly, but through the banks. However, a majority of my interviewees justified such an override, based on the importance of the economic and social function of the banking regulator:

Almarkazi [CBK] have the right because the banks are the base of the economy, thus they [CBK] want to guarantee that auditors are competent when they are appointed. (Big-B)

The number of banks are limited. The CBK especially has a unique position in Kuwait and the banking system is sensitive. Kuwait looks at the integrity of the banking system as the integrity and safety of the country, not only the banks. You know, when the crisis happened [the global financial crisis of 2008] all the state did was pump money into the banks. (SFR3)

Banks represent the core of the economy. They do not want auditors with no competence to audit banks. For example, a firm with five auditors auditing the National Bank [of Kuwait], how could they? They [CBK] have the right ... the civil liability lies on the individual who signed ... an individual represents a firm, the civil responsibility lies on the individual not on the firm because in Kuwait we do not have a law for audit firms. (SFR2)

... to make sure that Basel's instructions can be applied by the auditors. If you appoint a regular firm, they may not even know what Basel's instructions are. They are not only required to know it but also understand it. (SFR5)

This, however, does not mean that there were no tensions between CBK and the CMA. On the contrary, as we will see later (Section 7.2.1), because CBK does not regulate auditors “directly”, this bureaucratic arrangement helped the CMA to shift the tension in the audit “modernisation” programme to banks.

It is worth noting that my findings suggest that banks have little interest in the new regulator’s modernisation of auditor practices, but is interested in a particular embodied technology, audit rotation:

Banks resisted [periodic rotation requirement] because for them it is costly to change auditors [audit firms]. This resistance is not from us [audit firms], but we benefit from it. They pressure the CBK not to change. It requires lots of work and training and risk, and this takes years. (Big-C)

You know who is on the board of Alwatani [National Bank of Kuwait], they have influence. (SFR5)

Local banks in Kuwait are mainly controlled by ruling groups. The new regulator’s ambition to interfere in their institutionalised audit arrangement with the CBK and audit firms drove them to support the CBK resistance position. However, because the CMA employed stealth strategies to impose its vision of reality, many in return fought back against it.

They [new regulator] were under fire from everywhere. (SFR6)

Now I move to explain the CMA’s strategies to accumulate bureaucratic capital and transcend in the bureaucratic field to fulfil its functions: modernising capital market activities and achieving international integration.

### **7.2.1. Strategies to reproduce inter-bureaucratic domination for audit regulations**

For Bourdieu (2005), the field of *high state nobility* (higher civil servants) become a field of permanent struggle during policy changes, each aiming to protect its bureaucratic function by imposing its political vision of reality (see Section 4.3.4.1). My findings suggest that the CMA employed five strategies in their symbolic disputes with other bureaucratic organisations that used to dominate the audit regulation field. The CMA’s domination strategies ignited conflicts with other bureaucratic agencies that had established particular

regulatory arrangements for audit: the Ministry of Commerce and CBK. However, here I am not offering exclusive description of these strategies on the accumulation of bureaucratic capital by the new regulator, but themes I encountered during my data analysis.

#### **7.2.1.1. Strategy 1: Registration: A bureaucratic technology to expand regulatory territories**

In Kuwait we have a problem. When I become a [new] government institution I accumulate, give me, give me [responsibilities]. Why all these administrative issues? The document goes from one place to the other. Because everyone is taking responsibilities of each other, what will happen? There is chaos out there. Everyone [government institutions] intervenes with the other ... this is not limited to Alhay'a [CMA, the new regulator] but all government institutions. (TIER2)

Look at it from a larger scale, since the number of government bodies increased, corruption increased in the country. (Anonymised interviewee)

Surprisingly, the above quotations match Bourdieu's notions on the genesis of the bureaucratic system as a substitute to the feudal system;

The lengthening of the chains of delegation and the development of a complex structure of power do not automatically entail the withering-away of the mechanisms aimed at securing private appropriation of economic and symbolic capital (and of all the forms of structural corruption). (Bourdieu, 2004, p. 33)

As most investment companies were financially affected by the global financial crisis of 2008, CMA was empowered (by its establishment law) to regulate all securities activities including those of investment companies. This regulatory shift relieved CBK from the headache of the financial troubles of investment companies, but it was at the cost of reducing its authority and increasing the power of the new regulator. It is worth noting that one of the dilemmas that CBK faced is that it used to be the regulator of both banks and investment companies. Hence, it was difficult for the banking regulator to clearly side with/favour one group over the other as the crisis mainly generated monies due to banks from investment companies (see Section 3.7.2.3).

With the shifting of oversight of investment companies to the CMA, the CBK could easily side with the group that gives it bureaucratic legitimacy, the banks. However, as the new regulator became responsible to regulate and oversee a majority of listed companies (outside the banking sector), shifting investment companies to its regulatory authority increased its bureaucratic capacity. Nonetheless, given that all local banks are listed, the CMA strove to take over the regulation of the banking sector but could not, as that might not only marginalise the bureaucratic position of CBK but also probably create confusion in the government as the majority of local banks are controlled by ruling groups.

Registration was the primary strategy employed by the new regulator to control capital market activities, enlarge its regulatory authority, secure a position in the state regulatory arena, and enforce its symbolic dominance. In the field of audit regulations, as I illustrated in Section 6.2, for almost three decades the Audit Law empowered the Ministry of Commerce to nominate and classify auditors through licencing and registration. CBK, on the other hand, implemented tactics to avoid contradicting the law by requiring banks to consider certain aspects in proposing changes to external auditors (see Section 6.2.3.1).

The new regulator was more vigorous. Although all financial institutions continued operating under the same government, the CMA, in contradiction to the Audit Law, bureaucratic arrangements between other agencies, and the rules of the audit field, aimed to govern the audit regulations alone. Nonetheless, in addition to the contradiction between the CMA and the Audit Law, “registration” with the new regulator also endeavoured to include bank external auditors, on the grounds that local banks are listed in the capital market and consequently the audit of banks “should” be under the oversight of the new regulator, not the banks’ regulator, which is the CBK.

Looking at the issue of registration from a macro lens, despite registration being one of the powers of the state, “multiple registrations” does not mean auditors are equally treated by regulators. As the Audit Law grants audit

regulatory power only to the Ministry of Commerce, registration with the Ministry of Commerce does not automatically grant a registration with the CMA; by contrast, to be able to register with CMA, registration with the Ministry of Commerce is one of the requirements.

The new regulator becomes the barrier to enter the capital market or sole protector of the capital market. However, to further control the order of capital market companies audit, the new regulatory system led to a further classification within the audit field, CMA registered and non-CMA registered. In the broader sense, registration with CMA become a symbolic status for competition between auditors and audit firms. That said, within this context, competition is complicated. As audit firms do not legally exist, not all auditors working within audit “firms” are licenced by the Ministry of Commerce nor registered with the new regulator. Registration became limited to specific licenced individuals not firms. However, as we see in Section 7.2.1.3, there is an institutional superiority logic between state agencies, as the last bureaucratic decision on who is nominated (registered) is the one with “real” bureaucratic power to control a specific field.

There is also a hidden logic behind the fight of the new regulator over registration power. In addition to expanding its influence, fees are associated with registration. For an auditor to be able to provide services to capital market companies s/he, in addition to complying with practice conditions, must be registered with the new regulator and pay periodic registration fees (see Appendix 6). These fees not only enlarge the economic power of the new regulator but are also, arguably, a method of legitimisation/recognition of the activities of the new regulator by various social agents. In other words, the act of paying fees (in itself) is an act of recognising the legitimacy (power) of the receiver, the CMA.

With the CMA attempting to impose its vision of social order, the Ministry of Commerce in return, to maintain its bureaucratic influence, entered into disputes about the contradiction of the Audit Law and the Ministry of Commerce registration system. Also, the Ministry of Commerce encouraged

auditors to take part in these institutional disputes through prosecuting the “unconstitutional” demands of the CMA (see Section 7.2).

Unlike the Ministry of Commerce, in this battle, CBK was not greatly affected (or maybe it was not evident in the collected data and analysis) by the new regulator registration requirements, as banking external audit is already limited to the largest firms within the Big 4. But banks (mostly controlled by ruling groups) resisted some registration requirements, such as periodic rotation of external auditors, which strengthened the position of the CBK in ignoring the new regulator’s demands.

The following section covers the second strategy of domination between bureaucratic agencies to lead the audit regulations field.

#### **7.2.1.2. Strategy 2: Recruitment tactics**

Bourdieu theorised that a bureaucratic agency transcends the bureaucratic field by accumulating bureaucratic capital. Bourdieu (2005, pp. 116-7) differentiated between two types of bureaucratic capital accumulation. First, the bureaucratic capital of experience (related to “time”) gained through knowing people and regulations. Second, a scientific technically-based bureaucratic capital which threatens the cultural capital of the earlier, seniority type. For Bourdieu (2005), mastering and monopolising information is one of the crucial powers of state officials and bureaucratic agencies.

The timing of the establishment of the CMA played an essential role in its ability to accumulate *cultural capital* and battle to transcend the bureaucratic field. Backed by the vision of international agents (especially the IMF) and public discourse on Kuwait’s weak regulatory framework, the new regulator was able to stand in the face of long-established regulators with high bureaucratic capital.

As the global financial crisis affected mainly private companies in Kuwait, many employees (in the private sector) either found themselves in insecure jobs, pressured to leave companies, or were discharged by their employer as a result of austerity measures (see Section 3.7.2.3). It is worth noting that the

number of Kuwaitis working at private companies is small in comparison to the public sector (see Table 1). The number of Kuwaiti staff working at financial institutions, in governance of private companies, and in audit is even smaller, and the majority of this (small) labour group works either in banks or for the CBK.

Unlike for government ministries (including the Ministry of Commerce), as most recruitment goes through a central recruitment agency (see Section 3.6.2), CMA is similar to CBK in having autonomy over its recruitment decisions. However, as I explained earlier, for the new regulator, registration fees and fines are an important source of revenue (Sections 6.4, 7.2.1.1). The new regulator implemented a much better pay scale compared to other financial institutions, especially in comparison to CBK with its symbolic position within the state<sup>65</sup>.

The financial crisis helped CMA attract many experienced employees from financial institutions and audit firms in addition to other commercial industries as it offered attractive financial packages as well as job security. CMA also targeted many of the senior staff who had worked with the banking regulator. Recruiting CBK staff was one of the institutional behaviours that exacerbated disputes between CMA and CBK, leaving the latter with limited expert staff and probably making it vulnerable to the ongoing information battles with the new regulator.

From the days of [name], he sat with [name] and told him do not take our employees, all our seniors left us, they [CMA] continued recruitment [of CBK employees]. Even transfer of services between government bodies was allowed, CBK does not accept it. They [CBK] force you to resign so you can be appointed [to the CMA] ... maybe half of CBK employees moved to the capital market [regulator]. (Anonymised interviewee)

---

<sup>65</sup> The new regulator's ability to implement an attractive pay scale was concurrent with significant changes to the pay scale of the oil industry. Prime Minister Mr Naser Almuhammad approved (significant) changes to the packages of staff working in state-owned oil companies after pressure from the oil employees union and the parliament. Prime Minister Mr Naser Almuhammad was replaced due to public protests during the Arab spring. Arguably, such changes in remuneration affected many newly created agencies, starting with the CMA.

What distinguished the CMA from the CBK, given its short period of existence, is not only that it was able to compete on cultural capabilities but also *most of its experienced staff are Kuwaitis which gives it a greater symbolic element to its cultural power in the battle with other financial institutions and business organisations*. Nonetheless, attracting Kuwaitis with expertise in capital market activities facilitated top-down relations with companies, as the private sector of Kuwait is mainly dominated by expatriates; this also applied to audit firms.

### **7.2.1.3. Strategy 3: Bureaucratic superiority practices**

The CMA's demands for additional and parallel "registration" could be interpreted as a superiority practice, especially with the Ministry of Commerce, the Audit Law enforcer. Superiority behaviours have been one of the tactics for institutional disputes over regulatory power. For example, laws should be the basic grounds for government institutions to guide their practices as well as the practices of other groups subject to these laws. As the CMA demanded the implementation of regulations that conflicted with some existing laws (the Companies Law and the Audit Law), it started to pressure the Ministry of Commerce to amend the laws to conform to its functions.

The Companies Law must be amended and then the capital market law should be issued based on the Companies Law, but the opposite has happened. What happened is funny, it is really funny. (SFR1)

It is worth repeating here that the Companies Law had witnessed no reform since it was enacted in 1960. Arguably, one of the reasons for not changing the Companies Law was its function as a medium between the government and companies. In other words, a medium between the ruling groups that influenced both, the government and large corporations. An "uncalculated" reform may have congested such a historical and political relationship (see Sections 3.5, 3.7.1). With CMA's pressure, the Companies Law was amended to be relevant to the new regulator's operations in 2012, 2013, and with significant reform in 2016.

As the banking regulator demands banks get its approval for appointing individuals to certain senior functions, the CMA in turn required banks, as they



are listed on the capital market, to get its approval as well, otherwise publicly announced fines would be applied. Remarkably, CMA approval for the appointment of senior individuals in banks is required to be *subsequent* to the approval of the banking regulator. In other words, a bank proposes an individual for a senior position, and if CBK accepts the nominated candidate, CMA then decides whether to accept the appointment or not. Equally, whether to accept CBK approval or not. This power disposition is elaborated by one of the interviewees:

The capital market [regulator] is interfering in CBK authority ... the appointment of executive management [in banks] must be approved by CBK, and also the [CMA] and there are individuals approved by CBK and rejected by the capital market [regulator] ... and the position stays vacant for a long time ... the CEO and his deputies must be accepted by CBK before appointment ... Alhay'a [CMA] told the banks any executive you want to appoint I must agree on. They said we have received the approval of CBK. No [demanded the new regulator], send it to me ... they made their approval subsequent to CBK approval as if they have the superior authority. This means you CBK, when you approve send it to me and I will either accept or reject it. (Anonymised interviewee)

Outside the regulators' relationship, similar superiority practices were found to be practised by CBK with the banks' external auditors, the Big 4:

CBK calls and says, "I want to meet with you today at 1 o'clock." Like I have nothing to do and I am waiting for CBK to call me. Anyway, this is the ruling of the strong over the weak. They exploit their authority. (Big-A)

"Come we must meet tomorrow." This is the attitude of CBK, "come tomorrow, come tomorrow". I am outside Kuwait: "cancel your trip and come tomorrow" [laughing]. (Big-C)

In the above quotations, I am not signalling that the CBK has significant leverage over the Big 4. On the contrary, the CBK-Big 4 relationship is more collaborative and more supportive in comparison to the CMA-Big 4 relationship. But these are institutional practices to demonstrate influence and power (superiority). And it wouldn't be overstating to say that this superiority logic was probably transferred from CBK to the new regulator, as many of the senior staff of CBK moved to the new regulator.

#### **7.2.1.4. Strategy 4: Fighting one of the most symbolic social groups, the merchants**

Outside the “direct” audit regulatory struggle, fighting a group among those with the greatest symbolic power, the merchant group, delivered a clear message to the Ministry of Commerce, auditors, CBK, and companies under the oversight of the new regulator of its seriousness in reforming capital market activities and integrating Kuwait into the international order.

Although this is “indirectly” related to the battle to reform the audit regulatory structure and auditor practices, one of the main technologies used by the new regulator to achieve its international integration goal, was to implement a compulsory Anglo-American “international best practices” driven, codified corporate governance system. The required system includes establishing various internal control functions, creating various subcommittees for the board of directors (audit, remuneration, nomination, etc.), as well as appointing “independent” board member(s). Views on the usefulness of these technologies vary:

Our problem in Kuwait with the companies that failed [in the global financial crisis] is not due to toxic products like what happened with Lehman Brothers, it is all governance issues and mismanagement. There was no proper governance framework that guided the boards and executive committees. (TIER3)

They brought systems that work for General Motors, not a company with thirty million [dinars] and that owns four properties ... this was done for companies with two hundred thousand employees, not a company with twenty. Instead of demanding to implement all these committees, ask for two. What is a nomination committee? It is not necessary at all. (TIER2)

Despite financial costs associated with this Anglo-American system and its challenges to the dynamic of power within many companies, the CMA demanded an independent director on company boards of directors, which changes how order is controlled at the level of board members (owners). Accordingly, most listed companies have resisted the implementation of corporate governance codes. However, when companies sensed that the

CMA decision was not affected by their resistance, the Chamber of Commerce (merchant lobby) interfered.

As discussed in Section 3.5.1, the Chamber of Commerce is one of the oldest “merchants” political organisations in Kuwait. It has significant political power and a strong presence/relationship with the parliament, the government, as well as ruling groups. In fact, the chairman of the Chamber of Commerce is the father of the parliament chairperson! The merchant lobby organisation has substantial ability to influence laws and regulations, and is explicitly involved in criticising the proposed implementation of the “compulsory” corporate governance system. Dates are essential here to link some sequential implications to the direct involvement of the Chamber of Commerce.

As per the new regulator demands/pressure, the amendment of the Companies Law in 2012 and 2013 empowered the CMA to regulate and issue a system of corporate governance for companies under its regulations. Consequently, in June 2013, the new regulator issued a system of corporate governance principles for all listed companies. Companies were surprised by the CMA demands for *compulsory* adoption, effective from December 2014. Following enactment of the CMA-required corporate governance system, the Chamber of Commerce interfered with negotiating the new regulator’s decision through various meetings as well as meeting with the Minister of Commerce about the same issue (KCCI, 2014). One of the interviewees referred to this incident:

They [Chamber of Commerce] do not interfere directly. Look what they did to the CMA when they tried to constrain companies with the governance. [Name] the deputy of the Chamber of Commerce publicly said that we refuse this governance [corporate governance codes]. After a while, they revoked the commissioners’ board [of the CMA], they amended their law [law of the CMA]. This shows they have influence, maybe not directly because they do not have the authority, but through certain pressures. I do not know the mechanism. (Anonymised interviewee)

In March 2014, the Chamber of Commerce started to publish their opinions in public newspapers on the ineffectiveness of this system as well as bringing attention to several regional and international practices as alternatives to the

one proposed by the CMA. The following month, the CMA issued their decision to postpone the effective date of implementing the new corporate governance to mid-2016. Interestingly, in the same month as the postponement, the commissioner in charge of corporate governance enforcement resigned. However, as the details surrounding his resignation are unknown, it is likely either that he was pressured to leave or left because he objected to external forces constraining the CMA agenda to reform the capital market. Furthermore, the board of commissioners and its chairman was changed a few months later, before their term was over.

#### **7.2.1.5. Strategy 5: the appointment of autocratic leadership**

A new chairman was appointed with a political background (a former Minister of Education) and known for his autocratic leadership. His appointment probably aimed to face and contain the government-merchants political tension without threatening the government's neoliberal reform programme, as implementing corporate governance codes was one of the roads to membership in IOSCO and improving the capital market's international ranking.

Remarkably, a few months following the appointment of a new commissioner's board, the newly appointed chairman approached CBK to settle the unresolved tangle of institutional responsibilities/conflicts. The discussions probably did not go as the newly appointed chairman planned.

There was a collaboration protocol between [names] they signed the protocol and two months later they prosecuted him [governor of CBK] for his shares in Bait Altamwel [Kuwait Finance House, a local bank] ... there is nothing documented, but it looks like the relationship [between senior officials of the two institutions] got worse. (Anonymised interviewee)

Following the meeting, in early 2015, the CMA "publicly" referred a case against the governor of the banking regulator to the capital market prosecutor for potential violation of the law. The CBK governor invested in the capital increase of one of the local banks (Kuwait Finance House). This investment related to a small number of shares that the governor owned before his

appointment (investment of capital increase worth 1,000 Kuwaiti dinars, approximately 2,500 pounds Sterling). An amount less than 10% of the governor's monthly salary.

The prosecution strategy aimed to change the banking governor by discrediting his reputation as well as delivering a message to companies and the Chamber of Commerce about how things may go if the CMA demands are not satisfied. However, this behaviour gives a strong signal of clientelism in the enforcement of laws and regulations. It is a problem I will return to in the Discussion Chapter as an additional layer to Kuwaiti government power.

Companies and the Chamber of Commerce continued resisting the proposed system with many delisting from the capital market, but eventually, the new chairman implemented some amendments (customised) on the corporate governance codes in 2015, especially those related to the appointment of independent directors, one of the most resisted requirements. The new compulsory system was enforced in mid-2016.

We changed some requirements. But we implemented it. We forced them [listed companies] to comply with everything. (SFR6)

With regard to the prosecution story, the prosecutor decided not to proceed with the case against the CBK governor who continues to fill this function as of this writing. It is worth noting that only in 2018, one month after the chairman of the new regulator left his office to become the Minister of Finance, a memorandum of understanding was signed between CBK and the CMA (see Section 8.2).

In the first part of this chapter, I explained my findings on the bureaucratic conflict between the new regulator and other state agencies to transform/maintain the order of the regulations of the capital market corporate audit. I also explained my findings on the CMA's strategies to accumulate bureaucratic capital aiming to transcend in the bureaucratic field and lead capital market operations, including its external audit function. Now, having clarified the dynamic of inter-government conflict, I move to the second part of

this chapter to explain the struggle between the new regulator and the audit field.

### **7.3. Part 2: Conflict between the new (bureaucratic) regulator and the audit field**

Bourdieu (1994, p. 2) theorised that when the state modifies previous law(s), many agents affected by such change will resist. Bourdieu argued that resistance is not only because changes will affect the occupational interest of influential social actors, but also because of the associated changes to the social division and hierarchy.

On similar grounds, Halliday and Carruthers (2007, 2009) argued that enacting global rules that affect the national institutional order instigate local struggles at the implementation phase, often because affected groups did not influence the diagnosis and prescription of a social problem. Exploiting *implementation gaps* between regulations and practices is often a strategy by locals to complicate/obstruct/subvert reform (see Section 4.4.2.2). This is exactly what happened in Kuwait when the new regulator demanded auditors implement its first system of audit regulations:

They did not ask for the opinion of the profession ... there is something called an exposure draft ... you should not issue professional regulations without talking to the profession. (TIER3)

The beginning of the commission [the CMA] was wrong. It is difficult to fix now ... they did not ask anyone, this is wrong. (TIER2)

Before I explain my findings on audit field resistance strategies against the interference of the new regulator in audit field dynamics, I think it is more appropriate to start with explaining my findings on why auditors were opposed to the CMA's audit modernisation programme.

#### **7.3.1. Audit field rationalities behind resistance to reforming audit regulations**

My findings suggest that there were different interests between actors in the audit field regarding the new regulator's interference in the dynamic of the audit

field. Differences of views are mainly related to the positions of actors which, according to Bourdieu, depends on the way capitals are accumulated (Bourdieu, 1986).

Non-large firms perceived registration requirements as economically costly to their “small” market share in the Kuwaiti audit market. For small audit firms, digesting the high cost of the new capital market audit system is difficult as accessing some “profitable” (audit and advisory) markets of large companies (e.g., banking and oil sector) is relatively limited and mainly dominated by a few large international firms. Consumers of such services often give much consideration to the symbolic capital (e.g., name) of the firms. In other words, the ability of small firms to accumulate economic capital to meet the new regulator’s demands was limited.

We should have an equal opportunity with other firms, the way you enforce conditions on me similar to those for Ernst and Young, this is unfairness. They have the opportunity to go to companies which I do not have. Although the law allows you to audit, CBK, for example, monopolises banking audit to four or five or six firms and does not give you any instructions in writing. (TIER3)

The Big 4’s resistance has different logics. They can bear the financial costs of the new audit regulatory programme. Firms at the top of the audit field resisted mainly three technologies embedded within the registration requirements. These technologies are found to constitute significant threats to the symbolic power of specific *virtuosi* within the audit field<sup>66</sup>. First, certain measures on the governance of audit teams through constraining the number of clients for each senior auditor working with a registered auditor (see Appendix 6). This means that a firm may have to recruit (costly) expensive senior staff.

They failed in parts of the law, and we addressed them in this matter. For example, they want to increase efficiency by specifying that a manager should have a maximum of seven clients for a certain number of years. What about the size of the client? They want to improve

---

<sup>66</sup> For Bourdieu, “Virtuosi are able to play the game up to the limits, even to the point of transgression, while managing to stay within the rules of the game (Bourdieu & Wacquant, 1992, p. 78).” (Cooper and Joyce, 2013, p. 110).

quality, but they do not see the right practice. This client I work with for 500 hours and this client I work with for five hours. (Big-C)

We said ... why you are using numbers [of clients]? You have hours of work, and every regulator links the hours, because I can have a client take me an hour as a team leader, and another client take ten hours as a team leader. It is not right to limit my work with ten clients, one takes 20 hours and one takes five hours. Then you ask me to comply with IFAC. IFAC states that I do not accept work if I do not have the time to do it. Why go into these details? You should say "follow IFAC", and that's it. They should teach people what IFAC is, many people do not know. (Big-A).

Alhay'a [the new regulator] should not do this. We disagree with its involvement and the distribution of work. We do not see the number of clients as much as the number of consumed hours. It is irrelevant to limit the work of the team head to five or six clients. I have a client with six or seven consolidated companies which require many hours and a big team, this is considered as one client. And another client can be audited in two or three days. A real-estate company with one large complex. (Big-B)

You come and say this partner should have only seven clients, what do these clients look like? A bank or a company with a capital of 30 million? Which one needs more time? ... Say I have six banks and another has six small companies, how are these similar? This is not right. I do not know how they implement it, I think they took it from somewhere, maybe it is implemented in Oman and they mimicked it ... I think it should be by hours ... I do not know why they did not consider hours, obviously the number of clients is easier to check, how they are going to check the hours? (TIER2)

I do not remember the exact number but for example, they say a partner should have a maximum of five clients and the head of the audit team ten companies, something like this, or the opposite. This is funny, we raised this issue but they do not listen. I will give you an example, ... [mentioned the name of an auditor], because he audits all banks is the responsible partner for ... [named five banks] these are considered five clients and ... [mentioned his name] audit ... [named a few small companies] you compare these five clients with five banks clients, this is not right. You should measure this with hours. ... [named a bank] which is considered the smallest bank is equivalent to [a name]'s five clients. We proposed this in writing, we spoke to them, but they did not consider it, you know why? Because they do not understand the profession. (TIER3)

The second technology resisted involved forcing "registered" auditors to recruit Kuwaitis, as the new regulator aimed to enlarge the number of Kuwaitis working in the audit field which is dominated by expatriates. Arguably,



expatriates spread in the audit field contributed to the symbolic domination of a few Kuwaiti senior auditors who work in and manage the international audit field.

Kuwaitisation is one of the painful issues, we tried [to pressure to change], we are still trying, the CMA according to article three of its establishment law covers the purpose of establishing the commission. It talks about its goals to protect the shareholder, regulate the capital market, it did not talk about encouraging Kuwaitis, this is outside of its function. This is one thing, second, you implement a percentage of recruiting Kuwaitis only for auditors. If you care about recruitment and Kuwaitisation you should apply it to all. (Big-C)

Sharia audit [a type of religious 'Islamic' audit conducted in Islamic financial institutions], external auditor, brokerage, investment consultant, maybe fifteen different licenses and registrations, fund manager, portfolio manager, we the [external] auditors are the only license required to implement a percentage of Kuwaitis. An investment advisor, a company like KIC or companies with a minimum capital of 20 or 30 million, are not required to recruit, and we are required to do it? What is this arrogance? We encourage them [referring to Kuwaitis] they do not want to work, as auditors. (TIER3)

As I illustrated in Section 3.2, the private sector Kuwaiti workforce is about 4% of total employees. The audit field is no exception. Many Kuwaitis prefer not to work in the private sector in general, and audit firms in particular, for many reasons: e.g., low pay, long working hours, and lack of security. On the other hand, as we will see in Section 9.4.1, audit firms prefer not to recruit Kuwaitis. This resulted in the occupational domination of expatriates, and because the audit law empowers only Kuwaitis to sign audit reports, the result was the domination of a few Kuwaiti auditors over the entire audit field. The CMA's attempts to Kuwaitise the audit profession is probably a strategy to dismantle the domination of expatriates as well as of the monopoly power of a few Kuwaiti "influential auditors" at the top of the audit field.

Third, as the new regulator demanded "firm" rotation every four years with a cooling-off period of two years (see Appendix 6), for medium and small audit firms, "firm rotation" is found to be a great opportunity to compete and enlarge their market share. But for this class of firms, the new regulator's demands for costly firm structure and qualifications of the audit team(s) is something they

find difficult to meet, and consequently, a significant barrier to entering the market for the capital market audit. For them, rotation, although vitally important, is of secondary concern. The rotation of firms has been strongly resisted by firms that dominate the audit field.

In the beginning, when the first resolution was issued, obviously [lists names] will be harmed the most. (Big-A)

It is worth noting that because the market share of the Big 4 is unbalanced and consequently the position of dominant actors (within the Big 4) in the audit field varies considerably, there were different views with regard to firm rotation not only between large and small firms, but also between the Big 4.

In my opinion, healthy rotation starts with rotating the audit team including the partner responsible for the engagement more than rotating firms because the goal is independence and a fresh look. (Big-D)

Lots of firms do not have enough work to help them to develop. You develop, enhance your capabilities and efficiency when you have something in return [money]. Rotation will allow firms to enter the profession and engage with companies, an opportunity that was not available in the past. (SFR3)

It [firm rotation] supports the profession. If four firms are in control of the audit of large companies, companies will not look elsewhere but if you rotate, medium size and other large firms will enter and accumulate knowledge and grow. So, the number of firms with capabilities will increase, and this will refresh the audit market. (ABODY)

Interestingly, among the largest audit firms in Kuwait, three out of five firms supported firm rotation, basically because it increases their opportunities to accumulate social and economic capitals and put them in a better competitive position with the field dominators.

Firms with the largest market share will reduce ... as a profession it will not make a big difference ... theoretically, on the medium run there will be a balance, you know. This is healthy competition. (Big-B)

Firm rotation is healthy. (TIER3)

The current version of rotation is not logical ... it is not right that you rotate licensed auditors. What is the point? (Big-A)

As the audit market is not equal between the Big 4, the rotation of firms is a significant threat to the symbolic power of those at the top of the audit field.

Rotation of firms in an unbalanced market was perceived to be a substantial threat to the way dominant auditors maintain their symbolic capital (most noticeably social and economic):

Our client portfolio exceeds 60 years ... it has dedicated auditors for banks, companies, and institutions ... they [other firms] should invest to reach this level. (Anonymised interviewee)

This is selfish, I think 50%, maybe more, of my capital market portfolio will go away. (Anonymised interviewee)

They [a few firm representatives] disputed in the accountancy profession meeting that you want to take my clients from me. (Anonymised interviewee)

Around 25% of my auditors are junior Kuwaitis and if you want me to reach 50% and I am investing and, at the same time, you take my portfolio, what should I do with them? ... if you take my portfolio and give it to other firms only to rotate, these staff will leave the firm. (Anonymised interviewee)

The implication of firm rotation was not only limited to the audit field but also affected socially powerful corporations, the banks:

Banks resisted [firm rotation] because for them it is costly to change auditors. This resistance is not from us but we benefited from it. They pressure CBK not to change. It requires lots of work and training and risk and this takes years. (Big-C)

There was resistance from some people that are affected by it, and [they say], "if you rotate I lose". Ernst and Young is the auditor of the National Bank of Kuwait for 65 years. Who can force [them] to change their auditors? (Big-B)

Few firms audit Kuwaiti banks and if you implement firm rotation, this means you will apply this rotation to banks and then you force CBK to sign up for the same requirement. I felt that they do not want to go to a war that is not their war or a fight that is not their fight, you know? Whoever wants to do this [firm rotation] will enter into a big fight with the banks. (Big-B)

Some banks do not want ... they are used to specific auditors: "why do you force me to change?" (ABODY)

Opponents to firm rotation justified the resistance on the contradiction of law (where firms legally do not exist), limited cultural capabilities of the audit field to be responsible for auditing large companies, and unfairness to Kuwaiti partners working in large international firms. Ironically, the required

technologies are expected by dominant firms to stimulate competition with potential negative implications on the quality of audit.

The CMA tried to look at the individual auditor as a firm, problems happened. The association interfered and the Ministry [of Commerce] refused and said that every licensed auditor has the capability and companies select. If you [the CMA] have additional requirements other than ours, demand in a way that does not contradict with our demands as a Ministry. (SFR3)

From a legislative viewpoint, if we must rotate, based on the current laws is to rotate me not the firm because, as you know, the license is for an individual auditor, not for the firm. The firm is not registered with the Ministry of Commerce as it is the source of the audit license, before you go to CBK and the CMA. So how do I rotate a firm if it does not exist? (Big-D)

Now I have three or four licensed auditors. If you rotate the firm this is unfair to them ... rotating licenced auditors is the right thing. (Big-D)

Today, the existing firms in the market with their technical abilities and staff, if firm rotation happens, they do not have the staff and capabilities, they are not prepared to handle large companies. Leave competition on the side, if you actually see the market for firms, you will find nothing. (Big-D)

We will go back to point zero, competition. Small firms do not have high overhead costs, they will reduce fees ... fees are linked to quality ... to protect the integrity of the profession, there should be a minimum pricing agreement for listed companies. You cannot compete with lower fees. This is unethical competition, wrong, or it means that the quality of the work will diminish. (Big-C)

As illustrated above, every firm has different interest(s) in resisting the new regulator's demands to change the dynamic of the audit field. Non-large firms found the CMA's "one-size-fit-all" demands as economically costly, especially in the Kuwaiti audit market, where the audit of some large corporations is limited to large audit firms (especially the Big 4). Such an environment is rationalised to constrain the ability of non-large firms to accumulate economic capital and to meet the economically costly demands of the new regulator.

Large firms have a different logic to resist change. The reason large firms resist is not registration per se, which was used by the lobbyists as one of the main strategies to fight the audit reform, as we will see in the next section, but embedded technologies within the registration requirements, such as

governance of audit teams and Kuwaitisation. However, there are different interests within large audit firms concerning the CMA demands to apply firm rotation. As the market share of audit firms is unequal in Kuwait, three out of the five largest firms supported firm rotation. Those who dominated the audit field were convinced that firm rotation would diminish their positions.

The next section explains my findings on how the audit field responded to the new regulator's modernisation demands.

### **7.3.2. Strategies by the audit field to resist modernisation rules**

Bourdieu (1994) argued that:

... monopoly of the universal [a state] can only be obtained at the cost of a submission (if only in appearance) to the universal and of a universal recognition of the universalist representation of domination presented as legitimate and disinterested. (p. 17).

As we saw in the earlier section, auditors had different views and interests regarding the CMA's demands to change the role of the capital market audit. But the majority of auditors opposed some/many parts of the new system. Consequently, the majority of audit firms used the accountancy association (what Bourdieu categorised as *low state nobility*) and organised a "*collective lobby*" to resist submitting to the new regulator's vision of regulatory structure as well as their aim to modernise capital market audit practices. A combination of international, local, medium, and small firms participated in disputes against the CMAs audit programme, each with different interests. Resistance was mainly related to the contradiction between the modern regulations and the Audit Law, ambiguity in some parts of the regulations, and the high economic costs to comply with the programme. Bourdieu (1990) put the collective response this way:

The collective strategy that leads to any given "move" (whether in marriage or any other area of practice) is nothing other than the product of a combination of the strategies of the agents involved which tends to give their respective interests the weight corresponding to their position in the structure of domestic power relations at the moment in question. (p. 188)

It is unclear to me if the lobbyists influenced the regulatory modernisation programme merely by exploiting what Halliday and Carruthers (2007, 2009) call the *implementation gap*: the struggle between demands to modernise practices and existing (institutionalised) practices (e.g., ambiguity of law and contradictions). As we saw earlier, the new regulator strove to pursue its agenda despite contradictions to existing laws and the inherited regulatory arrangements. However, based on Kuwaiti social settings, opponents to change often use their social capital to frustrate changes that affect the hierarchical position of social actors. Possibly, at the beginning, auditors used their social capital to confront the new regulation agenda, but were not successful. Accordingly, auditors of different positions and interests grouped to form a collective resistance. Lobbyists used the accountancy association as a collective front to confront the new regulatory reform demands.

Lobbyists decided not to register with the new regulator, a strategy aimed at threatening CMA legitimacy as well as its position in the inter-governmental fight with other financial institutions over its ambition to be involved in (and lead) regulation of every aspect of capital market activities, including corporate audit. Ambiguity of the modern regulations and contradictions with existent laws and regulatory arrangements are the main justifications for the lobby's resistance. However, surprisingly in this lobby, auditors/audit firms did not fight the CMA demands for a full ban on non-audit services, a theme that will be returned to in the next chapter.

What is remarkable is that some influential auditors used the power of collective resistance to protect their symbolic domination by advancing their "private" interests:

We met in the Jam'eya [name of accountancy body], we were around 20 or 30 ... they [specific auditors] did a lobby within the accountancy body [lobby] to reject firm rotation. (Anonymised interviewee)

Based on the lobbyist agreement, the accountancy association, the collective lobbyist front, issued a letter with their demands to the CMA challenging many of the modernisation requirements.

However, some influential auditors (part of the lobby group) approached the new regulator and complimented them on their audit reform agenda to make the capital market and its audit system thrive. This meeting was mainly around the illegality of firm rotation where “firms” do not legally exist. Nonetheless, to avoid contradicting the audit law, the CMA was encouraged (or maybe threatened/pressured with filing a case against this unlawful/unconstitutional requirement) to change its regulations from firm-driven requirements to dealing with individual auditors.

Before amended regulations were issued, we sat with the auditors, a few of them, there was give and take. We informed them that we want a particular standard for auditing corporations that we regulate. (Anonymised interviewee)

... in our discussion with officials in these two institutions [CMA and CBK] that audit licenses are individually based, not firm based... I was honest with the financial regulators, today I am in the profession but tomorrow I am not, our global office is telling me, you will not leave until we see 50% of your staff are Kuwaitis ... if you take my portfolio and give it to other firms only to rotate, these staff will leave the firm. (Anonymised interviewee)

From a legislative viewpoint, if rotation is a must, under the existing laws ... rotate “me” because a “firm”, as you know, does not have a license. A firm is not registered. What are registered with the Ministry of Commerce are individuals ... so how will I rotate a firm ... if it does not exist? (Big-D)

A firm is just a name, legally it does not exist. We found that the ideal solution is to regulate licenced individual auditor. (Anonymised interviewee)

The above quotation alludes to Halliday and Carruthers (2009) views on the variations of regulatory practices between powerful capital countries. For example, the US implemented partner rotation and the EU recently enacted firm rotation; non-Western countries have some sort of flexibility in practices adoption.

Halliday and Carruthers (2009) theorised that often actors whose diagnosis is accepted usually also win the opportunity to prescribe the solution. The new regulator bought the idea that partner rotation is the ideal solution based on the Kuwaiti audit legal setting. Consequently, in 2012 (over one year after

issuing the first regulations) the CMA issued amendments to the previous regulations and continued with its demand for registration. In return, reduced (but not removed) audit firm governance and Kuwaitisation requirements. Changed the concept of “firm” to “individual registered auditor” throughout the regulations, which resulted in changing firm rotation to the proposed “partner” rotation, and continued with the same requirement concerning “full” prohibition on non-audit services.

#### **7.4. Chapter conclusion**

In this first part of this second chapter of my findings, I explained my findings on the bureaucratic conflict between the new regulator and the other state regulators that used to dominate the system of audit regulations in the Kuwaiti capital market. However, as the new regulator did not have the power to overrule the Audit Law, it battled the Ministry of Commerce and the CBK to submit to its structural vision of order for the regulation of corporate audit. However, the Ministry of Commerce resisted the domination ambitions of the CMA and fought back to protect its bureaucratic function and its “image” of domination. Accordingly, the Ministry of Commerce approached auditors (what Bourdieu refers to in this kind of conflict as externals) to side with them in this bureaucratic fight.

CBK, as it mainly deals with the Big 4 for banking external audit, was supported by the banks (mostly owned by some ruling groups), not because of the CMA audit system *per se*, but mainly against the demand for firm rotation. However, as many perceived the sensitive social and economic function of CBK, its symbolic position helped it resist and ignore the new regulator’s attempts to interfere in the banking regulations.

In the first part of this chapter, I was able to identify five strategies employed by the CMA to accumulate bureaucratic capital and transcend the audit regulations field. First, it expanded its regulatory territory by claiming to own the authority to regulate auditors, through registration power. This was a strategy that aimed to legitimise its involvement in the audit regulations field. Second, it recruited staff with high cultural capital, especially from an opponent



government institution (CBK), probably to weaken CBK's position in the cultural battle. This strategy intensified disputes between CBK and the new regulator. I also found that the timing of the operation of the new regulator played an essential role in its ability to accumulate cultural power.

Third, challenging the (inherited) authorities of other financial regulators with superiority practices. Fourth, challenging one of the most influential social groups in Kuwait, the merchant families, by attempts to change the way they control their (listed) companies. Finally, the appointment of autocratic leadership to continue pursuing the international integration agenda of the capital market and to confront opponent groups both inside the bureaucratic field (other state regulators) as well as external forces (banks, listed companies, and auditors). The new chairman succeeded in enforcing corporate governance codes after prosecuting the CBK governor, a clear message to all market actors on the seriousness of reform.

In the second part of this chapter, I explained my findings on the confrontation between the audit field and the CMA. I started by explaining why the audit field resisted the CMA's modernisation of corporate audit, and then I moved to clarify the resistance strategies of the audit field. I argued that there were different interests between audit firms in resisting the new system but none rejected the CMA demand for a new (additional) registration. Non-large audit firms found the new audit system economically costly and argued that profitable markets are limited to large audit firms, while large audit firms mainly found two technologies inappropriate: compulsory Kuwaitisation recruitment and limiting the number of clients for each audit manager. However, there were different views among large firms on the new regulatory demand to implement firm rotation. Some large firms found it an opportunity to compete with the field dominators, whereas field dominators found it a significant threat to their symbolic status.

I then moved to explain my findings on the strategies of the audit field to confront the new regulator's system. As the majority of audit firms would be affected by the change, they collaborated to form a collective lobby and used

the accounting associations as a front. Lobbyists rejected registering with the new regulator, a strategy aimed at challenging its legitimacy. Resistance was mainly around the ambiguity of some parts of the regulations, contradiction with existing (regulatory) practices, and the high economic costs associated with the required change. After some lobbyists approached the new regulator with their “collective” position on change, the CMA changed the regulations to be congruent with the Audit Law. This resulted in changing the logic of firms to that of individuals (to comply with the Audit Law) and accordingly changed rotation from a firm basis to an individual basis, reduced governance and Kuwaitisation requirements, but continued with registration demands as the main gate to interference in the audit regulatory space.

The following chapter covers the third part of my findings, the outcome of resistance.



## **8. OUTCOME OF RESISTANCE: SATISFYING INFLUENTIAL LOCALS**

### **8.1. Introduction**

In the last two chapters, I explained my findings on the conflict surrounding changes to the capital market audit practices. In chapter six, I illustrated the Kuwaiti structural audit regulatory arrangement before and after internationally-driven changes. I also demonstrated the interference by IOs in driving such change. Then I moved to explain my findings on why the Ministry of Commerce was perceived to be weak in its audit oversight function. I argued that one of the salient reasons is the ability of influential auditors to infiltrate and exploit the Ministry of Commerce's system of collaboration (see Section 6.3.2). Moreover, after I demonstrated the regulatory structural changes and the new regulator's audit modernisation programme, I explained my findings on why Kuwait modernised its capital market.

Chapter seven focused on the dynamic of conflict for modernising capital market audit practices. I explained two battles: first, the inter-governmental conflict between the newly established regulator with other state regulators that used to dominate audit regulations. In this fight, I explained the dynamic of conflict and the strategies employed by the new regulator to accumulate power and dominate the audit regulations field. The second struggle that I discussed was between the CMA and the audit field. I illustrated my findings on the underpinning logic of auditors to resist modernisation demands of the CMA as well as auditors' strategies to confront reforms to their practices.

This chapter aims to explain the outcome of the audit field resistance to the new regulatory modernisation programme. I intend to focus on the customisation of two technologies that were embedded within the resisted reform: the change from firm rotation to "partner" rotation and the new regulator's demands for a full prohibition on advisory services. The reason for focusing on these two technologies is that with regard to the rotation, it was one of the controversial technologies in the reform programme that agitated

those who dominate the audit field. I do not aim to explain the correlation between rotation and audit independence/quality but to explain my findings on how the customisation of rotation maintained the *status quo* within the hierarchy of the audit field. Regarding the other technology, I was interested in examining the reasons underpinning the silence of auditors on the CMA's demands to implement a full prohibition on provision of non-audit advisory services, knowing full well that non-audit services are one of the main economic resources for the Big 4, in general, and influential auditors, in particular. For me, these two technologies, which happen to be perceived as potential solutions to the auditor independence dilemma, are the most remarkable "problems" worth scrutiny within the new regulator's modernisation programme.

## **8.2. Balancing interests between the new regulator and influential actors**

In 2012, amended audit regulations were issued after almost a year of struggle, lobbying, and legitimacy threats through audit firms' refusal to register with the CMA. The amended regulations allowed the CMA to maintain order in the capital market and corporate audit, and to legitimise its capacity to interfere in the audit regulations space (see Appendix 6). The amendment merely reduced registration requirements and changed the logic of "firm" in the first regulation to "individuals" to make it compatible with the practices of the "old" Audit Law. This resulted in altering audit rotation from firm-based to individual-based. However, the full ban on non-audit services continued untouched!

The CMA did not compromise on the registration concept which gives it the power to interfere in the practices of the corporate audit. However, changing/customising the audit regulations in 2012 partially resolved tension with the audit profession, and auditors began to register with the CMA. The audit profession continued to pressure the new regulator for further

concessions on Kuwaitisation (Big-A; Big-B; Big-C; TIER2; TIER3) and team governance requirements (Big-A; Big-B; Big-C; Big-D; TIER2; TIER3)<sup>67</sup>.

The customised rules tried to balance state interests in promoting “international best practices” of audit regulations, satisfy global requirements for an international integration path (through membership in IOSCO and promoting the international ranking of the Kuwaiti capital market), and at the same time not significantly disturb the private interests, order, and positions of influential social actors. As argued by one of the interviewees:

They [the government] want to handle the stick from the middle [local saying on balancing interests, especially, at a time of tension], they are handling the stick of many issues from the middle. (Big-B)

Nonetheless, one of the important messages that the audit field lobby delivered to regulators was that changing the balance of power in an economically profitable field(s) with links to ruling groups cannot be achieved without a war. Following the auditors’ collective resistance, which was led by influential auditors, the new regulator started to involve the profession in new roles in audit practices, especially those at the top of the field.

We are required [internal instruction] before issuing any resolutions related to licenced individuals to listen to their opinion. (Anonymised interviewee)

The new method in issuing any new regulations is to take the opinion and feedback of the largest [actor] in every sector. (SFR6)

Concerning CBK, the new regulator and CBK entered into many disputes and tensions on who should lead banking audits, even after the CBK governor was prosecuted (see Section 7.2.1.5). As a result of tension between these two symbolic government institutions, in 2018, a revised memorandum of understanding was finally signed between the two regulators (CBK, 2018). They decided that the banking regulator should continue with its “indirect” regulations of banking audit, but also that banks are required to appoint

---

<sup>67</sup> Recently, in 2019, the new regulator waived its requirements for limitations on the number of clients per audit manager as well as a further concession on the Kuwaitisation rate (see Appendix 6). Probably, such a waiver was granted because the new regulator achieved a significant part of its agenda: membership in IOSCO and the ranking promotion of the Kuwaiti capital market from developing market to emerging market was achieved.

external auditors “registered with CMA”. In other words, CBK only approves appointment/change of banks auditors from among the auditors registered with the CMA. This does not change much as the banks are audited by large international audit firms (especially the Big 4), and these firms are already registered with the CMA to secure their market share in the capital market.

The following sections analyse customised rotation as well as the silence of auditors on the full prohibition of non-audit services.

### **8.3. Maintaining the status quo type of rotation**

IOSCO claims that rotation is a “good practice” to advance audit quality (IOSCO, 2002b, 2002a) without elaborating on the type of rotation. However, Halliday and Carruthers (2009) argued that the variations of regulatory practices between northern countries offer southern countries some flexibility to reform practices. The new Kuwaiti regulator tried to implement firm rotation but was antagonised by influential auditors on the basis that “firms” do not legally exist<sup>68</sup>.

It is worth noting that existing audit law does not recognise the concept of “firm” or “partner” but only “individuals”. Licence to audit is granted to Kuwaiti individuals who meet specific requirements (see Section 6.2.1.2). For the audit law, every licensed auditor is responsible for her/his signature and practices. The new regulator, instead of pressuring the Ministry of Commerce to amend the Audit Law as they did with the Companies Law (see Sections 7.2.1.3), followed the prescription of influential auditors and changed its firm-driven regulations to individual-based ones. Such customisation resulted in changing firm rotation to an “awkward” form of rotation, what many claimed to be similar to the US version of partner rotation, but in fact is rotation of signatory “individuals”. I call it “awkward” because rotation now exists, but in a manipulated form so as not to contradict with the way power is accumulated by those at the top of the audit field.

---

<sup>68</sup> In 2013, the US PCAOB proposed implementing mandatory firm rotation which was blocked by the US House of Representatives (Alloway, 2013).

My findings suggest that the customisation of rotation follows one of the core ideas of Halliday and Carruthers (2007, 2009) theory of recursivity, *symbolic compliance* (see Section 4.4.2.3). That is, compliance in appearance to address internationally driven pressure for change and avoid changes to the local balance of power. Indeed, forcing independence in societies with a high level of nepotistic, clientelist, and social dependence settings would possibly create disorder (at least) in the short run.

The Kuwaiti customisation of rotation means the application of rotation lies on the individual auditors registered with the new regulator, not the firm or the partner. *In Kuwait, partnership, license to be an auditor, and registration with CMA are not the same thing.* Being an auditor licensed by the Ministry of Commerce or registered by the CMA does not necessarily mean being a partner in an audit “firm”, which do not legally exist. Not only this, but I came across a “Kuwaiti” partner working at the Big 4 that had no local license and no legal power to sign audit report(s). I think this is not the norm in Kuwaiti audit partners field, but it is a case I came across during my interviews. Nonetheless, non-Kuwaiti partners (who happen to dominate the audit field) do not have the legal authority to sign audit reports because audit licences are only granted to Kuwaitis and consequently non-Kuwaiti partners cannot be registered with the new regulator.

The logic of customised rotation is basically linked to who has the power to practice her/his right to sign an audit report. Being a licenced auditor (according to the Audit Law) does not necessarily mean the ability to sign an audit report, especially for those working in “firms” governed by internal policies, procedures, authority, and hierarchy which define who has the power to sign an audit report as well as who gets the authority to register with the new regulator. Again, signature rights are limited to the few Kuwaitis in a field dominated by non-Kuwaitis.

The Big 4 only register Kuwaiti partners with legal signatory powers as well as internal authorisation (inside their firms) to practice such authority. Large firms



register at least two licenced auditors (partners) so that they can rotate their clients between them (see Table 11).

Firm name	Number of licenced auditors registered with CMA
Ernst and Young	3
Deloitte	2
KPMG	2
PwC	2
RSM	3
BDO	2
Total	14

Table 11: Licenced auditors registered with the new regulator

Source: (CMA, 2019)<sup>69</sup>

Registered auditors sign the audit reports (in their name) for dozens of listed companies. The individual auditor is legally responsible for the audit because s/he signed the audit report of these companies in her/his name, as the audit law states. Logically, it is irrational that the signer participates in the engagements of dozens of companies at the same time (as majority of companies financial year end on 31 December). In fact, I am sure some of them may have nothing to do with the actual audits, which are performed by dedicated audit teams. This situation is understood by the regulator's audit disciplinary mechanism.

They [regulators] know that you [as a signatory] did not audit 500 companies. Sure, other people worked with you, so all of the people who worked in this audit can be questioned in the event of audit error or in a crime. (SFR3)

Auditors work on a sampling basis. If an error is found outside the sample, this is what they call a professional error. There is acceptable [vs.] significant error. If a licenced auditor is found to be involved in a significant error, we hold him accountable. But we look at these issues from a professional viewpoint. (SFR2)

---

<sup>69</sup> In 2019, the total number of registered auditors with the new regulator was 37 individuals from 25 audit firms.

What the above quotation alludes to is that those who sign audit reports often have escape strategies for legal disputes. Either blame the Audit Law that forces them to sign audit reports without holding other auditors accountable, or use the sampling method as an excuse. This also demonstrates how rotation of registered auditors is merely rotation of signatories.

In large audit firms (especially the Big 4) where they have many audit clients and a limited number of Kuwaiti partners who sign audit reports, the practice of auditors with signatory power is best understood as a company with a number of general managers. The staff (at all managerial levels) do the work and the general manager (CMA registered auditor, in this case) authorise their work with a signature on the audit report. Regulators understand that the “few” authorised Kuwaitis cannot engage in the audit of all the reports that they legally sign. In the case of an audit problem, the few Kuwaiti general managers either point fingers toward their staff or use sampling as an excuse. The customised rotation of the new regulator became merely a rotation between Kuwaiti general managers working in the same company!

Now I move to demonstrate my interviewees responses to the customised version of rotation.

We spoke about this, we told them this it is wrong to rotate based on licenced auditors, what is the point? ... If you tell me [name] is sitting here and [another name] is sitting in the next office, today I sign and tomorrow he signs, do you count this as a rotation? I told them this is silly. I recorded this in the minutes. ... Rotating individual registered auditor is ineffective because the whole team under him [CMA registered auditor] is the same. (Big-A).

It is worthless. (Big-B)

It is cheating. (TIER2)

It did not achieve the purpose of rotation. (SFR9)

Ineffective, a firm with five or six partners, a company may rotate between them forever. (SFR3)

In my opinion, this is not right. At the end, the team is the same ... a partner leaves, another partner arrives in the same firm, the team is the same, and the school of thought is the same. (ABODY)

Rubbish ... I met one of the commissioners ... I told him, you customised it to maximise the profit of the Big 4 and leave the small always small. He said we want quality. I told him you do not want quality, you want to enlarge the big and leave the small, small. Even the small will not be able to develop themselves ... let me audit a few companies, let me develop myself. What you are doing is telling me that I will never audit, small firms will never be able to compete. (SFR2)

Rotating licensed auditors in firms with two hundred employees will defeat the purpose of rotation. (Big-B)

Three interviewees went beyond the ineffectiveness of this technology and viewed the customisation as a form of *social deception*:

They want to deceive people, cheat them ... if you look at it carefully you will find there is no rotation. I audit for four years and then you audit for four years. They say this is rotation but if you look at it carefully, this is not rotation, I see it as deception. (SFR5)

With this system, board members in the annual shareholders meeting claim that they rotate audit partners, to imply a better audit quality. This is deception. (SFR8)

Now CBK also started to rotate individuals, you change the name similar to the US. This is cheating. (TIER2)

After subverting the goal of rotation by a few dominant auditors, many large international audit firms argued that despite the ineffective customised rotation, their firm's internal policies enforce rotation whether the regulator requires it or not.

We rotate the team ... our global office forces us to rotate the technical partner every six years. Exceptions are very rare. (Big-D)

We comply with IFAC. We rotate partners and teams according to IFAC guidelines. (Big-A)

All the Big 4 internally rotate partners and teams every six years. (Big-B)

Now, we know how a few actors in the audit field exploited the gap between modern regulations, the "old" Audit Law, and audit field dynamics (dominated by expatriates with no legal authority to sign audit reports) to maintain the *status quo*. Two important questions need to be addressed. First, why did the new regulator implement this distorted form of rotation if it does not promote independence or help non-dominant firms to compete and acquire knowledge?

Second, why did auditors who lost the opportunity to progress in the field not rebel?

With regard to the first inquiry, it is important to note it was the management of the new regulator that decided on changes to capital market regulations, not internal committees with representatives from the audit firms (also see Section 9.3). However, one of the main goals for reforming Kuwait's audit architecture is to integrate Kuwait's capital market with international capital markets through registration with IOSCO and promote the ranking of the capital market according to specific international capital market indicators. Within the global neoliberal norm context, rotation of firms and partners is perceived as an indicator of audit independence which signals better audit quality. Hence, for Kuwait, implementing rotation was essential to satisfy global neoliberal governance norms. But it was equally important not to disrupt the way order is maintained.

It is part of the corporate governance system for the international capital markets and best practice and and and they have to do it, they implemented it, but the substance is something else ... They do not understand the consequences of audit. (Big-B)

You know, in renewing and changing laws there are many institutions and individuals that have interests that laws are customised in a specific way. (SFR3)

Interestingly, the new regulator was able to implement the logic of firm rotation within the existing "individual-based" audit regulatory environment. *It could basically forbid rotation between registered auditors working together in the same "office", but it did not.* As argued by Halliday and Carruthers (2007, 2009) the power lies with those who practice regulations, pushing countries to either enter into a war with the locals or to "deceive" international requirements for integration, what Halliday and Carruthers refer to as *symbolic compliance*.

I felt that they do not want to go to a war that is not their war or a fight that is not their fight, you know? Whoever wants to do this [firm rotation] will enter into a big fight with the banks. (Big-B)

So why did opponents of the customised version of rotation not rebel?

In Kuwait, the majority of individuals with big influence serve their own interests, they will also harm others [their opponents] to protect their own. (Anonymised interviewee)

They [few auditors] have influence on all of Kuwait. They have influence in the Ministry [of Commerce], in CBK, in the capital market. This is because they are in the profession for so long. (Big-A)

Large audit firms that sided with firm rotation did not rebel against the customised version of rotation, because, as my findings suggested, they did not want to create tension in the relationship with those who dominate the audit market. In other words, due to “fear” of those sitting at the top of the audit field, with their large social capital, who have the influence to complicate the private interests of opponents to accumulate economic capital. However, with the new regulator’s audit system, entering the capital market became limited to mainly non-small audit firms. Not only this but reforming the capital market and its companies enlarged the advisory market for audit firms which increased influential auditors’ ability to accumulate economic capital that adds to their symbolic power.

Concerning CBK, as it was able to secure its “indirect” involvement in regulating banking audit (see Section 8.2), what about auditor rotation policies for CBK clients, the banks? As I mentioned in Section 6.2.3, CBK does not engage directly in regulating the practices of external auditors, but through banks. The banking regulator in their codes for corporate governance required banks to have policies concerning “rotation” (CBK, 2012, 2019).

One of my interviewees discussed that the banking regulator met with the Big 4 to solicit their opinion on how to design a policy for rotating the external auditors of banks. The audit field dominators proposed implementing a similar version of customised rotation to CMA to align banking rotation with capital market requirements. This solution probably also aimed to soften the tension between the two regulators as well as maintain the domination of specific audit firms on the banking audit.

CBK is trying to follow CMA because they [CBK] used the same people [influential auditors], who are the direct beneficiaries, to design a rotation policy for banks. We spoke to banks and asked them, “do you

really believe this is a policy?” They laugh and say CBK and CMA are happy with it. (Big-A)

It is worth noting that the existing practice of rotation policies within the local banks is a rotation of responsibilities between each bank's two external auditors. One audit firm is responsible for the asset side and the other firm is responsible for the audit of liabilities and equity. Rotation is changing the responsibilities of each audit firm after a certain period of time.

In summary, the findings in Kuwait suggest that audit firm rotation clearly changes the rules of the game through stimulating competition within the audit profession, with potential implications on the redistribution of the audit market share. This was a concept that threatened the audit field dominators' (part of the Big 4) way of accumulating and maintaining their prestige and reputation. With the agreement of the new regulator, rotation of “registered” individuals became the acceptable alternative solution as “firms” do not legally exist. However, “partner” rotation is customised to mean signatory rotation with maybe few (to zero) implications for audit independence, which contradicts the purpose of this technology.

The customisation of rotation achieved two goals. First, satisfying the global modern requirement to implement rotation in the Kuwaiti capital market. At the same time, it maintained the status quo and local order of powerful social actors. It could be argued that international audit firms have two levels of influence: international influence, as they participate in (re)shaping the rationality of transnational agencies on governance issues. They also have local influence, helping the state to manoeuvre around global constraints. In both cases, auditor practices move towards freeing their intensive capital accumulation activities.

The following section investigates the second part of this chapter, the “silence” of auditors on full prohibition of non-audit services, the other modern technology perceived to promote auditor independence.

#### **8.4. The silence of auditors on complete prohibition of advisory services**

The prohibition of non-audit services has a different story but an ending similar to that of customised rotation. An ending that points toward strategies to enhance/maintain the symbolic position of a few auditors at the cost of subverting “potential” solutions to enhance the social role of auditors by reducing their economic dependence on their audit-clients. However, I do not intend to explain the Kuwaiti story behind the correlation between prohibiting advisory services and the quality of audit, but how the common understanding of the threat of providing advisory services to audit-clients is manipulated by influential auditors to accumulate power.

I was curious to understand why the audit firms’ lobby did not reject CMA’s requirement for a complete restriction on advisory services, one of (or the) main source of economic capital for audit firms, in general, and the Big 4 in particular! Two of my interview protocol queries indirectly touched on this area (Q14, Q16, Appendix 2). Two things need to be noted. First, data on the revenues of the international audit firms operating in Kuwait are not publicly available, but advisory services are argued to constitute large operations for the Big 4 operating in Kuwait (SFR2, SFR5, SFR6). ABODY put it in this way:

Most of the work is in the advisory [realm] ... audit is nothing [as an income generator].

Second, advisory services in Kuwait are mainly dominated by the Big 4 as the presence of international consulting firms is minimal.

It is also worth noting that during my data collection phase, I went into the field with the idea that there are some controls over auditors’ advisory activities, as stated in the practice’s Audit Law (see Article 20, Appendix 4 and Section 6.2.1.2), and that the new regulator attempted to re-emphasise the legal constraints of the audit law. My actual findings were relatively shocking for me!

My interviewees responses made me rationalise that there is some kind of resiliency on providing advisory services which drove me to inquire how audit

firms legally operate in Kuwait in order to understand how auditors provide services prohibited by the Audit Law. A majority of my audit field interviewees were reluctant to discuss issues concerning their “firm’s” legal structure and revenues. I was able to gather data on these matters from my state regulator interviewees. Details of these issues to come.

Before I explain my findings on the “silence” of the auditors lobby concerning the new regulator’s “full” prohibition on non-audit services, I will start by explaining my findings on how regulator understanding of advisory services was re-shaped by some auditors and then, relatedly, I will explain how auditors/audit firms legally provided advisory services despite the “imaginary” prohibition (which accounts for the lack of resistance among auditors).

The story behind the underlying arrangement of advisory services is mainly related to exploiting Kuwait’s legal structure of corporate audit, which I found to be outside Halliday and Carruthers transitional recursivity framework. The core idea of their theoretical framework concerns the state’s ability to foil global interference which creates recursive dynamics. It is highly likely that the non-audit services regulation was due to a previous recursivity episode that became a regulatory reality. However, as per my findings, the advisory regulation story is better understood via the Bourdieusian theorisation of actor strategy to accumulate power (especially economic capital).

#### **8.4.1. Shaping the rationality of regulators on the logic of advisory services**

My findings suggest that influential auditors followed a strategy that (re)shaped regulatory understanding on the logic of advisory services. This scheme originated with the Ministry of Commerce (the Audit Law enforcer), then moved to CBK (the banking regulator). Recently however, the reshaped idea of advisory logic became a regulatory reality and the CMA followed the same understanding. The strategy of forming the understanding of regulators aimed to facilitate the accumulation of economic power by influential auditors who reproduce their symbolic domination in the audit field.



A long time back, some dominant actors in the audit field approached the Ministry of Commerce, as it was the sole enforcer of audit and company laws, to convince them that the Audit Law is unfair as other professions have much more flexibility in providing various services in comparison to auditors. Actors at the top of the audit field convinced the Ministry of Commerce that the idea behind restricting advisory services is for licensed auditors not to be involved in the “management and the organisation” of providing non-audit service. However, if an audit “firm”, which is a group of licensed auditors, has a separate and specialised advisory team, this “will not” threaten the independence of audit(or) or the rule of the Audit Law. Licensed auditors “must not” be “directly” involved in the decision to provide an advisory service.

This strategy was used by auditors to institutionalise (at the individual level) the link of audit independence to technical independence through the separation of teams (operational split), without exposing how licenced auditors (economically) benefit from such a design. Such a regulatory (re)design aimed to overcome constraints of the “old” Audit Law, which resulted in disregarding the increase in economic dependence of auditors on audit clients.

When we talked about advisory services, the idea of independence is that you practically separate this service [advisory service] from that service [audit service]. In our discussion with the Ministry of Commerce, when you give license to ... [his name] to practice audit, you forbid him from everything, while other professions are not. Today I have a legal entity [advisory company] I might be an owner or not, why do I treat this company unjustly about practising advisory work. It is independent [from the activities of the licensed auditor], has a separate team, independent approach, independent methodology ... in our discussion with the Ministry of Commerce, the Ministry of Commerce gives you a license for an advisory company whether you have an audit firm or not, or if you are one of the owners. We do not want to do like other firms: they put it in names of others [meaning that some licensed auditor owns an advisory company but on the books, it is owned by someone else], and in substance, it is a different thing. (Big-D)

The Ministry of Commerce was convinced by the “equality” justification that linking advisory services to a team outside the licensed auditors would not affect auditor independence nor contradict the provision of the Audit Law that regulates the individual auditor.

We do not have a problem with this, but you do not have the right to sign there [in the advisory company], you have the right to sign for audit, but in advisory, you should not influence or sign. (SFR1)

The same tactic was followed with CBK, the banking regulator. On 14th of August 2002, immediately following the SOX enactment in the US, CBK issued a circulation to banks that forbade them from obtaining advisory services from their external auditors.

In order to enhance the independence of audit work assigned to the auditors by the General Assembly, and to give the most credibility for shareholders of the auditor's opinion on financial statements, the Bank [commercial banks] should not assign any work to assess the adequacy of the internal control systems applied by the Bank or any other technical or advisory work to audit firms that audit the Bank accounts. Note that the external auditor is required to be associated with an international audit office to obtain the approval of CBK to assign audit work or evaluation of the internal control systems of banks. (CBK, 2002, p. 28)<sup>70</sup>

Two months later, on 16 October 2002, the banking regulator amended the circulation and classified advisory services to accounting type services and non-accounting type services. CBK changed their requirement and allowed banks to obtain non-accounting type of services from their external auditors.

Reference to CBK of Kuwait circulation dates 14 August 2002 ... with reference to article number 20 of law number 5 of 1981 [the Audit Law] ... we would like to point out that your bank must not assign the work to assess the adequacy of the internal control systems and other technical and advisory work to your bank's audit firms, while not assigning other technical and advisory work of an accounting nature (for example: designing accounting records, providing advisory on alternative accounting treatments) to companies that are economically or legally linked to these firms, whether this link is through joint ownership or joint management. Therefore, what your bank can obtain from these companies is only technical and advisory works of a non-accounting nature (for example, preparation of feasibility studies, review of the work plan, development of salary and salary structure, and recruitment advisory). (CBK, 2002, p. 29)<sup>71</sup>

---

<sup>70</sup> Translated by the researcher.

<sup>71</sup> Translated by the researcher.

This change in regulating consultancy services, although around 18 years old, was a result of negotiation and tension between bank auditors and CBK, as put by one of the interviewees:

When we talked to CBK about their circulation. To solve the disputes we decided on the term “accounting nature”. So that, anything with an accounting nature we stayed away from so that no one says we were involved directly or indirectly. (Anonymised interviewee)

After CBK amended its circulation, it said licensed auditors economically or legally linked to consulting companies, whether this link is through joint ownership or joint management, can provide non-accounting services (details on ownership/joint management follows). What is also remarkable is that the amendments referred to the Audit Law, as the first circulation did not. Arguably, the logic of the “old” (individual-based) Audit Law is what influential auditors in international audit firms rely on for disputes, to maintain the *status quo*. Nonetheless, in 2012, CBK issued its code for corporate governance, and in a section related to risk management and internal controls, it again discussed advisory services:

The Bank [commercial banks] shall ensure that no [advisory] work is assigned to assess the adequacy of the control systems and other technical and advisory works to the Bank's [external] audit firms, while not assigning other technical and advisory work of an accounting nature (evaluation of accounting records, advice on accounting procedures ...) to companies that are economically or legally linked to these firms [banks external audit firms], whether it is through joint ownership or joint management. (CBK, 2012, p. 85)<sup>72</sup>

The code emphasised the prohibition on obtaining “accounting nature” advisory services from a bank’s external auditor and stayed silent with regard to services of a non-accounting nature. The same logic extended to the recent amendments of the bank regulator designed system of corporate governance (CBK, 2019, p. 30). This regulatory “manoeuvring” by the banking regulator to show that it forbade advisory services, in not mentioning the other class of advisory service (which includes all types of services except those which are accounting related) means that the amended circulation that allowed non-

---

<sup>72</sup> Translated by the researcher.

accounting services is still in operation as it is the latest legal reference. However, without explaining the meaning of “accounting”, the 16 October 2002 circulation was the last legal reference that explicitly discussed and allowed non-accounting services. Concerning these contradictions, interviewees escape by answering related inquiries<sup>73</sup>:

I do not remember but for ICR [annual; internal control report] ... you [audit firm] should not work on the ICR with another task I gave you on a periodic basis. (Anonymised interviewee)

The Audit Law forbids a licensed individual from providing non-audit services, and the regulator's rationale with regard to the link of audit independence and separation of teams had been constructed. The question now is how audit firms provide advisory services without contradicting the Audit Law? As I mentioned earlier, the majority of interviewees from audit firms were reluctant (and often tried to escape inquiries related to consultancy services) to fully explain the legal structure of their firms, but some were kind enough to clarify the regulatory structure of audit firms.

We have a limited liability company for advisory, I am one of the owners. In substance, I am not involved in it. In form, I am one of the owners. It has a specialised team. (Big-A)

They work under two licenses, an advisory company and a license for audit ... we do not have a problem with this, but you do not have the right to sign there [in the advisory company], you have the right to sign for audit, but in advisory, you should not influence or sign. (SFR1)

The audit license is for audit; it did not say advisory. So, I have to establish an advisory company because when you sign with large companies, they ask for evaluation services, advisory ... you cannot provide these services because your license does not allow you to

---

<sup>73</sup> With the 2012 corporate governance codes, arguably, CBK purposely manipulated regulatory constraints not only due to audit firm pressure or to support the auditors' agenda to maintain their symbolic reputation, but because of “problems” CBK itself generated over the years. On the one hand, as with the support of CBK, for many years, the banking audit was performed by mainly two audit firms (Ernst & Young and Deloitte). This was one of the reasons for enlarging, in terms of firm size and probably technical capabilities, the gap between the Big 4 in Kuwait. On the other hand, CBK may not have wanted to create obstacles for a local bank to demand services beyond audit, if they wish to, especially from the largest firms. Or to stress the banks-audit relationship in any way. For example, advisory could be used as a gate for increasing audit fees. Meaning, as audit fees go through a shareholding meeting, and to avoid such obstacle, increases in audit fees may have been paid in the form of advisory fees.

practice this kind of work. So you have to establish an advisory company. (TIER3)

An audit firm that provides non-audit advisory services has at least two legal vehicles within a firm. One is related to a group of licensed and registered auditor(s) and the other is a limited liability company licensed to provide economic, financial, and administrative advisory services. Ownership of the advisory company is arranged internally and with the audit firm global office. It often includes all partners (audit and advisory), with different distribution of dividends depending on the arrangement with the global office.

As the Ministry of Commerce is the source of all types of commercial licenses and they accepted the idea of separation of teams; they do not care who owns the advisory company even if it is completely owned by a licensed auditor. Again, as long as a licensed auditor is not involved administratively (in appearance) with the advisory function (linked auditors involvement to merely signing advisory contracts), this became the rationalised practice by the regulator. Logically, despite ignoring auditor economic dependence on clients, the constructed architecture of separation is doubtful.

The separation exists [referring to her/his firm] but needs to be regulated and supervised to make sure it is applied. (Big-D)

To satisfy Ministry laws, regulations, and requirements, these two functions are legally separated in appearance, but internally within a firm, all functions are operated under the firm's internal control structure, as Big-B claimed:

Despite different licenses in operation, internally we organise all our activities under a single umbrella. (Anonymised interviewee)

With this "imaginary" operational split that has limited contribution to progressing independence and quality, audit firms, without changing the law, became free from the Audit Law's restriction. Provision of advisory services became dependent mainly on the decisions of each individual firm:

We already, before they implemented it [the new regulator], we have risk management, we evaluate all work for independence and the self-review threat ... these requirements did not make any difference to us. (Big-B)

There is work that does not affect independence. International firms, the Big 4, put specific definitions, whether regulators accept it or not, this is another topic, but we in ... [firm's name] any client approaches me for advisory work, to accept him, I have to input this information in our global system. If they find a conflict of interest, they will not give you a code. (Big-D)

We have what we call SPS, that is a statement of permissible services. There are things we cannot do and things we can. If an audited client asks me [to perform] a specific task, we review the statement of permissible services to see if we can do this work or not. If we can, we start a process we call AFS authorisation for services. We send it to the client engagement leader of the audit. You tell them that your client "A" asked us for an advisory service and this is the service, and this is the fee, and these are the details and the reference of the statement of permissible services that say we can do it. Do you have another opinion? He and the responsible for independence and risk, they review it and give us the approval or not. There is a process in the firms that you can say comply with certain standards. I do not need law or guidelines from Almarkazi [CBK] or the CMA or others to know what I can do and what I cannot. I'm supposed to have policies, professionalism, ethics, and compliance with IFAC and my own independence regulations. I know what I can do and what I cannot. We go back to the quality of the firm. (Big-A)

I have a partner responsible for advisory. When he signs a contract in the proposal stage, we have a system that involves all partners. We are a small firm ... if one of the partners says that this company is a subsidiary of a company that I audit, here, we study this issue. Is there going to be a self-review threat? ... because our firm is small, we can control it. But, the larger the firm, the higher the [risk of] mistakes. (TIER3)

Influential auditors are successful in manipulating laws to accumulate and maintain their symbolic capital and domination. The new regulator followed the logic of the other financial regulators. Since the first system of 2011 that aimed to modernised audit regulations and demanded "firm" rotation, it prohibited advisory services from the individual auditor (not firms).

The CMA emphasised the separation of audit and non-audit teams without any consideration of how economic dependence compromised auditor quality, but linked independence to the separation of teams.

There is no prohibition [on advisory] but a complete separation between teams that work in audit and teams that work in advisory ... if you are a licensed auditor and own an advisory company, you are required to

separate teams. As long as you sign a report of a company [audit report], you do not provide advisory [work] for this company, but your team provides it. A complete separation between them and the auditors. (SFR7)

With the technology of separating teams, audit firms still decide what affects their independence and what does not. So auditors were “silent” on the CMA’s demands for complete prohibition of non-audit services, because the prohibition is on the “individual” auditor, not for the “firm” (which legally does not exist), even if the advisory company is completely owned by the licensed and registered auditor!

In summary, the Audit Law prohibition of non-audit service was “morally” violated by influential auditors to revoke constraints to accumulate economic capital. Regulator understanding of the logic of such prohibition became a *doxa* and moved to CBK and then to the CMA. Influential auditors designed a structure to override the Audit Law constraints without risking changes to them. The constraint on advisory services is “imaginary” as economic dependence of audit firms on their audit-clients is outside of the regulatory scheme. Manipulation of audit regulatory concepts enabled the Big 4 to expand their consultancy services, and consequently enlarge their economic and symbolic power. This drove me to conclude that the silence of auditors on the regulatory prohibition is because they basically rendered it null and void.

## **8.5. Chapter conclusion**

This chapter aimed to explain my findings on the outcome of resistance to two embedded technologies that were part of the new regulator’s audit modernisation programme. First, changing “firm” rotation to “individual” rotation. Second, the silence of auditors on the CMA’s emphasis of full prohibition on auditors’ ability to provide advisory services.

At the beginning of this chapter, I illustrated how the CMA, as a result of the audit field collective lobby, changed its authoritative approach to including influential actors in the re-design of audit regulations and future rules that affect auditor practices. Then I explained what the customised audit rotation meant. It is basically a rotation of signatory in a legal environment that comprehends

the domination of non-Kuwaitis which provided some exit strategies in case of problems with the corporate audit. I explained the legal environment of auditor practices as a manager of a “private” company. Accordingly, interviewees criticised this ineffective model of rotation that maintained the status quo with no implication to auditor independence nor competition between audit firms.

I argued that this regulatory strategy aimed to achieve two things. First, it aimed to maintain the local order of the audit field, as it may have implications on the way ruling groups manage their listed companies. Second, it aimed to satisfy global requirements to implement rotation to signal improved audit independence and audit quality. My findings also suggested that those opposed to this model of rotation did not rebel out of fear from those dominating the audit field and their social influence.

I then explained my findings with regard to the second technology: the silence of auditors on the CMA’s demands to implement a full prohibition on non-audit services. My findings suggest that influential auditors have long shaped the understanding of the Ministry of Commerce (the audit law enforcer) on the logic of constraining advisory; that is, the operational split between audit and non-audit teams.

This strategy was extended to CBK’s attempt to implement the prohibition, in line with SOX in 2002, to local banks. This way of understanding, arguably, became a common sense between regulators. With this rationality construction strategy, I also explained how influential auditors invented a structure to free them from Audit Law constraints without changing the Audit Law. I found that in front of state regulators, audit firms basically operate under two legal vehicles: one between licensed auditors (each responsible for her/his signature) and one for their “firm” advisory activities, despite who owns this vehicle. Internally, however, all auditors and advisory teams work under one umbrella.

This architecture helped audit firms to freely decide which services they want to provide, audit or non-audit, accounting or non-accounting! The new regulator followed this constructed understanding of the antecedent



regulators. A CMA registered auditor is not allowed to (directly) engage with the advisory team. Still, the new regulator accepts if the CMA registered auditor is the sole owner of the advisory company and the sole beneficiary of the income of the non-audit services provided by the audit “firm” to the audit-client! This contradictory regulatory understanding is the main reason for the silence of auditors on the new regulator’s “imaginary” demands to implement the full prohibition of non-audit services.

## **9. DISCUSSION CHAPTER**

### **9.1. Introduction**

This thesis has sought to answer two related questions concerning why and how Kuwait modernised its capital market audit regulations based on SOX-driven international best practices. Answering these questions demanded a broad understanding of different trajectories of influence of the global space to the local settings of nation-states, their impact on the societal balance of power, and the responses of the dynamic of the local authority to such exogenous interference.

Unlike prior studies that examined changes to corporatist audit regulatory arrangements which happen to be dominated by Western state-audit arrangements (see chapter 2), Kuwait, with its unique local settings, follows a legalist mode of regulations. Accordingly, internationally-driven changes instigated a different type of conflict than what had been examined in the accounting literature. My findings suggest that local conflicts related to regulatory change ignited two intertwined battles. One was between the new regulator and auditors, but the main struggle was an inter-governmental one between the three state financial regulators. Each implemented strategies to defend or transform their vision of regulatory reality concerning the capital market audit. Bourdieu's theorisation of practice (including his theory of the state) helped me to understand and explain such complex conflicts. Nonetheless, I mainly drew on Halliday and Carruthers recursivity framework to help me understand the dynamic of global power as well as the outcome of the struggle to customise auditor rotation.

In this chapter, I intend to discuss my findings on the broader theorisation of how and why Kuwait modernised its capital market audit regulations by attempting to combine the various parts of this thesis to reflect on my emergent research questions. This chapter is organised into four main parts; three parts are related to how implementation was achieved and one part is concerned with why Kuwait modernised its capital market audit. In the first part, I intend

to discuss my findings on the inter-governmental battle between the new regulator and other state regulators that used to collaborate in regulating corporate audit. In this section, I aim to extend my explanation of this conflict to the broader Kuwaiti social space. In the second part of this chapter, I explain the underpinning logic of the audit field's collective resistance and how a few auditors exploited this movement to advance their interests. The third part of how change happened focuses on the implication of collective resistance. I intend to discuss two salient technologies within the Kuwaiti audit modernisation programme: rotation and prohibition of non-audit services.

The fourth part of this chapter aims to elaborate on why Kuwait modernised its audit regulations. As the Kuwaiti reform is relatively late in comparison to its regional markets, I will discuss the relationship between “why reform” and “why late reform” and then I will conclude this chapter.

## **9.2. The state's hierarchal battle to transform its regulatory vision**

Bourdieu (2014), theorised that the state is “the monopoly of legitimate physical and symbolic violence” (p. 4) and “the central bank of symbolic capital” (p. 217). However, Bourdieu's understanding of the hegemonic power of the state, is, as yet, underutilised in the accounting literature (see Section 4.3). In fact, the “state” is a widely neglected theme in academic studies. In a special issue on state power, Kourula et al. (2019) argued there is a shortage in our knowledge mainly because, in a globalised era, the underpinning assumptions of a majority of business research include: the state is losing power, the lack of enforcement authority, or it is an irrelevant unit of analysis. In fact, there is not much literature that examine how nation-state(s) reproduce their power in the transnational era. Honestly, I do not know if prior studies, especially in the mainstream, perceive the state as passive, neutral, marginal, something scary, or an enemy!

I am not implying here that the state is entirely off researchers' radar. Suddaby et al. (2007, pp. 344, 352-4), for example, correctly argued that the state

continues to be an important player in the global space to coercively advance transnational regulatory logics to polities. Nevertheless, the core idea of Halliday and Carruthers (2007, 2009) work on transnational recursivity is that the state, whatever its distance from the global power, continues to have weapons to confront the hegemonic power of international actors even when a state is at its weakest (financial) situation.

Some studies on global-driven accounting regulatory change did consider the power of national governments (e.g., Alon et al., 2019; Arnold and Sikka, 2001; Caramanis, 1999, 2002; Caramanis et al., 2015; Cooper and Robson, 2006; Ezzamel and Xiao, 2015; Mihret et al., 2019; Sikka, 2002, 2009, 2015; Suddaby et al., 2007). Besides being little-studied, state power continues to be a widely neglected theme in anti-positivist studies. In this chapter, however, I aim to discuss my findings in relation to both the local government as well as its relation to the broader society.

Although I was able to illustrate the bureaucratic fight between bureaucratic agencies, one of the important issues that my findings raised is *how come a state like Kuwait, with a constitution that structures the ruling power (within a few individuals) to govern Kuwaiti social life, witnessed such bureaucratic division in vision and power to change the order of the capital market and audit regulations?*

I believe Bourdieu's theorisation of the relationship between the field of power and the bureaucratic field provides answer(s) to this complex inquiry. Bourdieu (1989, p. 263) theorised the field of power as a space of the *dominant class* that struggles to "confront each other using strategies aimed at preserving or transforming these relations of power" (p. 264-5). Nonetheless, the struggle between the field of power and the bureaucratic field intend for each to control the other (see Sections 4.2.3.3, 4.3.4). Relatedly, there is the antagonism within the field of high state nobility (government agencies), each aiming to defend their function and power by attempting to impose its vision of reality (Bourdieu, 2005, p. 93).

In Kuwait, some members of the merchant families, especially in the pre-oil period, used to have significant (direct) political influence (Crystal, 1990) as the ruling power was sustained through taxes paid from their economic wealth (see Section 3.5). Post-oil, this power started to be reshaped as the royal family became independent of merchant monies. However, influential merchant groups began to re-design their mechanisms of authority to protect their (inherited) interests and status (see Section 3.5.1).

To influence ruling decisions, some merchant groups involved in occupying senior positions in bureaucratic agencies (often not directly but through loyal representatives within their group(s)), sustain the symbolic status of the Chamber of Commerce (merchants lobby), and maintain an influential presence in the national parliament. Today, the parliament chair is the son of the Chamber of Commerce chairman (merchants lobby). This generated what I referred to in Section 3.4 as the ruling groups of Kuwait, which includes a few individuals from some (historically powerful) merchant families and some individuals from the royal family.

As infiltrating the state power (and using its apparatuses) is part of the domination battle between ruling groups, it resulted in no “unified” government decision. Those at the top of bureaucratic agencies have their individual vision, interests (economic, political, social and or ideological), and loyalties to different social groups (royal, merchants, tribal, public or other political groups) which sometimes animates a fragmented governmental agenda. This logic possibly extends to operate inside some ministries and government agencies. This power relation is not limited to two broader categorisations of ruling groups, but also occurs within each of them. However, the inter-bureaucratic conflict about modernising auditor practices represents a struggle between ruling groups that have institutionalised influence within the bureaucratic field to maintain their domination in the social space.

I am not suggesting that the public (and their parliamentary representatives) have no political voice, but often these voices are penetrated, shaped, divided and employed for the battle of domination between powerful groups with

commercial interests. Bourdieu (1994) theorised that the state's symbolic power works through the guaranteeing of state authorities to legitimise social groupings and identities that legitimise state power and those controlling it. Public collective vision and decision is always a threat to the dominant vision of symbolic (specific) order, and henceforth such power gets dismantled by classification. Such division is often achieved through, for example, social classification of micro-religious difference (*Sunni* and *Shia*) in addition to differences in schools of thoughts within these micro-religious interests, differentiation in cultural tradition (between *Badu* and *Hadar*), tribal and family roots (*Asef* and not-*Asef*; see Section 3.3).

Back to the inter-ruling group conflicts: as I could not find any relevant work on inter-government conflicts or bureaucratic domination strategies in non-Western traditions, I was able to identify some strategies that empowered the new regulator to accumulate bureaucratic capital. I had argued in Section 7.2.1 that the new regulator was able to antagonise two state agencies (the Ministry of Commerce and CBK) and two influential social groups (the merchant group and the influential auditors) to submit to the new regulator's vision of regulatory reality, by following various strategies (such as registration and strategies to confront the merchant group, among others).

Concerning the new regulator's "registration" technology, my findings support the MacDonald and Richardson (2004) study that found licencing public accountants was one of the powers used by the created council to reconstruct regulatory space in Ontario. However, in Kuwait, unlike changes to corporatist arrangements, registration demands also ignited intergovernmental conflicts because the interference of the new regulator was perceived to override and marginalise the Ministry of Commerce's registration authority.

With regard to the appointment of new leadership in the new regulator to confront powerful opponent groups. Canning and O'Dwyer (2016), mentioned something similar by arguing that the chairman of the Irish oversight body played a significant role in guiding the board's diverse interests toward achieving the agenda of the newly established body. However, Canning and

O'Dwyer was looking at arrangements within the "new" oversight board, which included members from the audit profession. The "legalist" situation in Kuwait is different. Auditors have no "direct" involvement in the decision making of the new regulator. The new chairman of the CMA was hostile to the other state regulators, and determined to have them submit to the new vision of regulatory reality.

The story of suing the governor of CBK carried an essential message to opponent groups, as CBK regulates banks that are mainly controlled by some ruling groups, on the seriousness of integrating Kuwait in the international system. Nonetheless, this story also tells an important message about the way some Kuwaiti government agencies regulates social life. Clientelism in the enforcement of the law is an additional layer of the Kuwaiti state's symbolic power. The story of the lawsuit against the CBK governor tells us that some of the Kuwaiti government agencies are resilient with regard to its responsibility to apply the rule of law. Still, if any actor (or group of actors) constituted a threat to the vision of reality of those who dominate the bureaucratic field, often the state uses its coercive power and applies the law to these people.

In the broader social space, the Kuwaiti government institutionalised *wasta* (nepotism and clientelism) as a social norm at the individual level. *Wasta* used to be employed to get exceptions from (or to override) state regulations<sup>74</sup>. The government started to accumulate the loyalty of individuals either directly or through empowering some parliament members as a medium for *wasta*. This member becomes popular in the social space (with loyal voters) due to government-driven enlarged social capital, and s/he becomes subordinate and a supporter of the government vision. For me, although *wasta* ruins societal moralities and justice, it follows the same logic of clientelism in the enforcement of the law. Whenever someone uses *wasta* to violate regulations authorised by the government, these violations are used by some government

---

<sup>74</sup> Today, *wasta*, as it became a social norm, is also used (in many cases) by people to get their own legal rights.

agencies against the individual (including the empowered parliament member) in case s/he constitutes a threat to the vision of the dominators.

Knowing the underpinning reasons for the division of vision within the bureaucratic field, another issue that emerged from my findings is: how was the new regulator able to win (at least in a significant part) in transforming the capital market's regulatory reality despite the inherited power of oppositions? The answer to this question is fairly related to earlier reflections on the division of visions within the Kuwaiti government.

Canning and O'Dwyer (2013) suggest that for a reform to succeed, it depends on the level of political support from the parliament and the public. The new capital market regulator's ability to confront and transcend other bureaucratic agencies (institutionalised and penetrated by different groups with different interests) as well as the merchant group may never be achieved without political support by those with a higher position in the field of power. This support enabled the new regulator to accumulate bureaucratic capital and transcend in the field of high state nobility.

A central argument in the internationally-driven oversight reform literature is that local traditions (history, social, cultural, economic) influence the trajectory of institutional change (Canning and O'Dwyer, 2016; Caramanis et al., 2015; Hazgui and Gendron, 2015). I agree that local social systems play a significant role in shaping change, but equally important is the political support for change as argued by Canning and O'Dwyer (2013, 2016).

Nonetheless, local traditions and political support are kind of fuzzy. Caramanis et al. (2015) for example, argued that because Greece follows a clientelistic government, audit regulatory reform was not successful. However, although Kuwait probably shares many similarities with Greek political traditions, it was able to significantly reform its capital market.

Remarkably, Bourdieu (1994, p. 15) argued that the state uses physical coercion if it is cannot produce social *doxic* submission to its objective structures. In non-democratic societies, the strong desire for change among



those sitting at the top of the national power pyramid (with authority to use the state's physical coercive power) often achieves their agenda even if it opposes societal traditions (cultural ideology). A good contemporary example is the enforcement of the "significant" liberation wave that is happening now in Saudi Arabia (Kuwait's neighbour) in contradiction with local inherited (religious) traditions.

### **9.3. Collective lobby to advance the private interest of the few**

My second research question explored the reaction of the audit field to the new regulator's demands to modernise institutionalised practices. The first attempt to modernise Kuwaiti audit regulations suffered from major regulatory holes. Auditors resistance logic was mainly centred around what Halliday and Carruthers theorised as mechanisms of struggle for legal change aiming to exploit regulatory gaps and obstruct change (see Section 4.4.2.2). This include arguments of indeterminacy of the regulations, contradictions with existing laws, in addition to what was perceived to be costly embodied requirements (see Section 7.3.1). A similar response on the economic costs is argued to be found in the first stages of the Irish reform (Canning and O'Dwyer, 2013). However, as my findings suggested, auditors did not reject the registration concept *per se* which aimed to offer an intervention strategy for the new regulator to change auditor (institutionalised) practices, but conditions associated with registration. However, lobbyists used registration as the main weapon to confront the new regulator's modernisation agenda.

To influence/limit/control the regulatory audit reform agenda, the literature often argues for the tactic of infiltrating executive positions or steering committees in the changed architecture. These strategies have been found at the national (e.g., Hazgui and Gendron, 2015; Malsch and Gendron, 2011; Sikka, 2002) and international levels (e.g., Humphrey et al., 2009; Loft et al., 2006b; Samsonova-Taddei and Humphrey, 2015). However, in the Kuwaiti situation, this tactic was partially employed with the Ministry of Commerce, through their authorisation for auditors to become involved in audit steering committees, which resulted in weakening the Ministry of Commerce oversight

ability by advancing the interests of a “few” auditors (see Section 6.3.2). As I mentioned earlier, the situation with the new regulator was different. Within the new regulator, decisions on regulatory change are decided in-house, without the “direct” involvement of externals (market actors, including external auditors). At least, this is what happened in the first reform.

For Bourdieu (2005, p. 204), dominators of social fields often use their social capital within bureaucratic agencies to pressure the state to align regulations to their favour. In the first reform episode, because auditors had no access (or direct engagement) to influence regulatory decisions, or the use of their social capital (e.g., *wasta*) was not effective, auditors (each with different interests) used the “passive” accountancy association to form and represent a collective lobby to resist what was perceived to be transgressional demands by the new regulator.

Lobbyists refused to register with the new regulator. Interestingly, similar strategy was found in France, with auditors threatening to stop providing statutory audit (Hazgui and Gendron, 2015, p. 1247). However, although my findings were not clear concerning who engineered the lobby, I believe some influential auditors had no access to decision makers in the new regulator (or failed) to influence the reform agenda. Consequently, to be part of a larger pressure group, they used their connection (social capital) in the accounting association to call for collective resistance against constraining the lawful practice of auditors to engage with the capital market companies. Bourdieu (1990, p. 188) interestingly linked the collective strategy of an individual to her/his interests as well as position in the field (see Section 7.3.2).

Collective power was formed (each with varying interests depending on their position in the audit field) and used by influential auditors to advance their domination interests, mainly against firm rotation. However, collective rejection to register with the new regulator was, I think, a powerful confrontation that targeted the legitimacy of the new regulator not only regarding the reform of audit practices but its broader reform agenda. Following the collective unified decision on the unlawfulness of the “firm” concept (among other issues) in the

first attempt to modernise auditor practices, influential auditors approached the new regulator to deliver the collective message and emphasised mainly the unlawfulness of the “firm” concept.

Now I move to my third question of how change happened in Kuwait.

## **9.4. Manipulation of international regulations to maintain order**

### **9.4.1. Customised rotation: A solution to maintain broader order**

My third question was: as result of audit’s collective resistance, what are the implications for customising modern audit regulations? My findings suggest that auditors’ collective resistance to the new regulator demands resulted in four responses. First, the accounting profession is to be considered and consulted in any future changes to audit practices. Second, registration with the new regulator continued as it is the means to engage in the regulatory space and to influence and oversee audit practices within the capital market. Third, registration’s “costly” requirements were reduced but not removed. Fourth, replacing the explicit concept of “firm” to “individuals” to be compatible with the practiced existing “old” Audit Law. This change resulted in changing firm rotation to rotation of “individually-registered” auditors.

I have argued in my literature review chapter that the majority of prior non-positivist studies in accounting were less interested in examining micro modern technologies of SOX-driven international audit regulatory changes (see Section 2.5). This includes applying the concept of rotation or following the US path to prohibit advisory services. My findings claim that these international micro technologies “must not” be taken for granted as a potential solution to the audit dilemma.

Bourdieu theorised social resistance to legal change is mainly due to its associated changes to social division and hierarchy (Bourdieu, 1994, p. 2). The new regulator’s demands to implement firm rotation was perceived by the

audit field dominators as a significant threat to their strategies of maintaining their symbolic position, as it disturbed their long-term investments with ruling groups and the way they accumulate economic and symbolic capitals.

In Kuwait, although the Big 4 dominate audit services for large organisations (e.g., the banking and oil sectors), the market share between the Big 4 is relatively unbalanced. That said, implementing firm rotation most probably will result in shifting (sharing) dominant power (client portfolio with its embodied sources of social, economic, symbolic, and cultural powers) to other firms. However, unlike the findings of Belal et al. (2017) in Bangladesh, which emphasised the animation of cultural power on the dynamic of their audit field, the Kuwaiti story of rotation tells us that the hierarchy of actors within the audit field depends on the weight and quality of social capital (especially with ruling groups with commercial interests).

The introduction of firm rotation threatens such a dynamic within the audit field. Firm rotation, as influential auditors believe, challenged the capital that animates their symbolic domination the most, social capital. Nonetheless, implementing (as-is) firm rotation (in an environment without equal distribution of market share) will eventually shrink the influence of dominant audit firms, and lower the position of those sitting at the top of the audit field because the monopoly of accumulating and sustaining the symbolic element of social capital will no longer be exclusive to those “few” auditors. Firm rotation means that after a specific period (tenure), dominant auditors must step down for other auditors to take their function or, more accurately, their power.

Canning and O'Dwyer (2013) found that in reforming the Irish system, when auditor strategies to resist change were not successful (e.g., emphasis on over-regulation), auditors engaged in “manipulating” the regulations. However, unlike what I understand of manipulation, for Canning and O'Dwyer, manipulation is influencing the legislation (through demands to redraft “vague” legislation); they then lobbied to demand professional representation in the new body. In a similar attempt to subvert reform, Malsch and Gendron (2011) found that in Canada, the involvement of the accounting profession in the

operations of the newly created oversight body resulted in maintaining the *status quo* of the audit field.

As I already discussed my findings on how manipulation (customisation) was achieved and how it maintained the *status quo* position of the audit field dominators (see Section 8.3), here I will interpret my thoughts on “why” the new regulator changed their conception on rotation. My findings suggested that dominant auditors exploited the modernisation of auditor practices and provided solutions to the new regulator (using the collective lobby) to deceive global standardisation and maintain the order of the audit field. As “fear” is one of the motors that guide the application of internationally-driven regulatory change (Malsch and Gendron, 2011), my findings also suggest that opponents of the new regulator’s customisation of rotation did not react out of “fear” of those who dominate the audit field. I believe there might be other reasons for the new regulator to accept manipulating (customising) rotation and what Halliday and Carruthers theorised as symbolic compliance.

I am building the following discussion because the new regulator was able to implement the “concept” of firm rotation without contradicting the “old” Audit Law (see Section 8.3). It merely required the new regulator to “disallow” rotation between registered auditors working together (within the same firm), instead of explicitly allowing it<sup>75</sup>.

I do believe that the new regulator, when demanding such independence technology, did not calculate the (embedded) implications of such “best practice” technology on how “social order” is maintained. That said, firm rotation in the case of Kuwait does not only threaten the position of those sitting at the top of the audit field, as a couple of firms dominates the audit field, but equally important, it challenges the logic of how some ruling groups (with listed companies or those who intend to list their private companies) operate and legitimise their commercial activities.

---

<sup>75</sup> Note 5 of Article 5 of Customised Regulation number 24/2012 explicitly states that after a four-year tenure, companies can immediately appoint a registered auditor that work with their existing registered auditor. This mean that two registered auditors who work in the same “firm” can rollover audit-clients (every four years) indefinitely.

I believe, in Kuwait, “keeping secrets” could explain the interests of the regulator in changing rotation policy. “Keeping secrets” is one of the vital characteristics to make partnership, as argued by one of my key interviewees (Big-D). In the Kuwaiti audit field, it is one of the significant methods for maintaining and accumulating a symbolic element of social capital within the ruling class. Similarly, Big-C discussed that sometimes clients (from ruling groups) tell an audit engagement partner to change an auditor within an audit team because her/his family is from a competing ruling family! SFR5 also argued that the Big 4 prefers not to recruit Kuwaitis because, unlike expatriates with limited social networks, Kuwaitis “talk”.

Keeping secrets may indicate covering up clients’ unlawful practices or violations of specific accounting/auditing standards. I do not believe this is always the case, but that it is done mainly to protect the sources of income, for inter-ruling “competition” purposes. Culturally, Kuwaiti society, including business and audit firms, is not used to transparency concerning their income sources (especially “the old generation”) or how they manage their income. This is one of the reasons that expanding the number of people who have access to these “secrets” is something culturally indigestible, especially for some ruling groups.

Firm rotation means that secrets will be accessible over time by various firms and various audit-engagement teams and (probably) will be out of (secret) control. Hence, in a non-transparent culture, firm rotation is not only targeted to stimulate competition between audit firms but may also confuse competition between some ruling groups. In the Kuwaiti case, the embodied forces of rotation meant to disturb the dynamic of legitimising domination within the field of power (see Section 3.7.1).

Influential auditors, banks (controlled by ruling groups), and CBK (part of its “hidden” function is to balance relations within ruling groups with commercial activities), each with different interests, fought to resist firm rotation. Even today, CBK requires banks to decide on their own rotation policies (CBK, 2019, p. 39)! Banks shift responsibilities between their two external audit firms (that

happen to audit their accounts for many decades) and this is completely acceptable as a rotation by CBK, of course it is!

I believe the new regulator realised the cultural contradiction of firm rotation only after it demanded its implementation. Now I move to discuss my findings concerning the prohibition of non-audit services.

#### **9.4.2. Prohibiting non-audit services: An exploitation that became a regulatory norm**

This section discusses the second part of the implication of resistance. I explained my interest in examining the silence of auditors on the new regulator demands to implement “full” prohibition on non-audit services and that my findings on the Kuwaiti modernisation programme is outside the recursivity framework of Halliday and Carruthers (2007, 2009) (see Section 8.4). I also explained how this story is better understood within Bourdieu theorisation as a strategy to facilitate auditors’ ability to accumulate economic capital.

Kuwait’s original “old” Audit Law “forbids” licenced auditors (as individuals) to engage in providing any type of services outside audit. As the old law was implemented for a different time and practices, arguably, it is “significantly weak” for the current period as many parts of auditor practices are unregulated (see Section 6.3.2). Auditors, in return, benefit from this “loose” regulatory arrangement especially its lack of recognising “firm(s)”. However, the Ministry of Commerce (the Audit Law enforcer) system of collaboration by involving auditors to participate in steering their profession, provided auditors the ability to build up relations with the Ministry of Commerce and resist modernising the audit law.

Nonetheless, the Ministry of Commerce steering arrangement, by combining auditors with their regulators and influential actors in the economic field (e.g, representatives from the Chamber of Commerce), according to Sikka (2002), threatens the “independent” function of auditors. However, as a result of the “trust” relationship between the Ministry of Commerce and influential auditors, the latter were able to institutionalise the idea that forbidding advisory services

is mainly related to technical independence (separation of teams) “despite” who individually profits from providing such services.

The constructed meaning of the prohibition was designed not to threaten the (appearance) of the rule of “old” Audit Law, as long as the Ministry of Commerce licenced auditors did not engage directly with the advisory function and as long as a “Chinese wall” existed between legal vehicles and teams, even if the registered auditor is the sole financial beneficiary behind the provision of such advisory services! Even though the Ministry of Commerce which authorised this design did not have the “legal” capacity to investigate the application of the so called “Chinese wall” (SFR1). Sikka et al. (2018) put it perfectly:

Non-auditing services result in an identification of the interests of auditors and their clients and economic bonds make it psychologically impossible for auditors to be independent of audit clients. (p. 35)

My findings do not explain how anyone could buy this nonsensical “imaginary” idea or what situation (at that time) influenced the Ministry of Commerce to accept such justifications. However, what my findings do show is that all my regulatory interviewees *doxically* believe that this is the right way to regulate non-audit services! Probably, at that time, some ruling groups needed advisory services and so this regulatory override was the solution to prevent changes to the “old” Audit Law.

Influential auditors, as I found, also fought to extend this type of understanding to CBK. This is clear by the manner in which CBK changed and manipulated wordings and concepts (accounting and non-accounting related services) in its corporate governance guidelines regarding advisory services after US SOX came to international consciousness (see Section 8.4.1). The CBK scenario of 2002 could be explained as Halliday and Carruthers’ *symbolic compliance*, as an attempt by CBK to foil SOX-driven internationalisation of the banking system audit (see Sections 4.4.2.3, 8.4.1).

Such regulatory belief in the logic of prohibiting advisory services moved to the new regulator who publicly propagated application of the “international best



practice” prohibition on auditor advisory services! Ironically, auditors and their firms continue to provide whatever services they choose, despite regulator claims, as long as the licenced or registered auditor does not sign the advisory contracts!

The prohibition story proved the power of auditors’ “disguised” strategies to lower regulatory barriers to accumulate economic capitals. I also believe the “ineffectiveness” of regulators is one of the reasons for having such a loosely regulated space. Nonetheless, with regulators *doxic* belief in the reality of advisory arrangements outside economic dependence, it might be that regulators and auditors (in a previous episode of conflict) tried to foil global influence through recursivity, which later became a regulatory reality. To conclude, the collective lobby did not resist the new regulator’s demands for full prohibition on advisory services because regulators believe that separation of teams is the true reality behind such prohibition.

The next part discusses my fourth research question.

## **9.5. Legitimising Kuwait in the “new” global order**

The previous three sections addressed questions on how Kuwait modernised its capital market audit. In this section, I elaborate on my fourth research question that investigates why Kuwait modernised its capital market audit regulations. In Section 6.4.3, I demonstrated my findings on why Kuwait attempted to modernise its capital market, including its audit regulations. I argued that my findings suggested a *doxic* submission to international financial technologies as a potential solution to Kuwaiti’s “ineffectual” governance system. I also argued that the two questions “why implement?” and “why late implementation?” are relational. I will discuss these two inquiries consecutively.

### **9.5.1. Why submit to Western logics?**

Reflecting on investigation of the *doxic* submission to economic globalisation, Bourdieu (1998b) argued that, “I believe, by analysing it and trying to understand the mechanisms through which it is produced and imposed” (p. 31). Accordingly, I think a valid inquiry for discussion may be centred around why a small non-Western country had this *doxic* belief in, and submission to, north-Western internationalised practices? I think there is no single answer to this complex inquiry. What I am offering here are thoughts based on my analysis of my data and the Kuwaiti socio-context that may help to understand the reasons underpinning such taken-for-granted beliefs.

I believe there are three main motives that explain “why” modernisation of the capital market and its audit regulations took place. First, the exogenous (direct and indirect) constant influence on local culture. Second, mimicking regional practices, where others started to reform their capital markets years before Kuwait. Finally, national security matters.

#### **9.5.1.1. Rationalising Western practice supremacy**

There are many causes that facilitated the reconstruction of individual and social rationalities to align with global (cultural) norms. I find the following reasons are the most salient to Kuwait.

- University education in Kuwait (both undergraduate and graduate) follows Anglo-American curriculums, with their embodied Western norms. Also, many Kuwaitis did their university degrees in north-Western countries. One of my interviewees, for example, argued that, “We teach them business administration and the majority of graduates go and work for government institutions” (SFR3).
- Kuwait society is open to other cultures, as evidenced by the percentage of expatriates in Kuwait (see Tables 1 and 2). Such admixture influences cultural (indigenous) traditions.
- Western cultural hegemony in Kuwait increased after it was liberated (with the direct participation of the West, especially the US) from the Iraqi

invasion. As Kuwait is considered to be within the US/Western influence orbit, Western (financial) practices became the epitome, despite the repeated financial crises that they engendered, or the rising gap in wealth inequality. Nonetheless, it might be that the Iraqi war was a way for the US to “frighten” other states into accepting Western supremacy and emulating its practices.

- The involvement of IOs in recommending institutional changes not only for the capital market and audit (see Section 6.3), but for many aspects of social life especially by the World Bank (e.g., education system, government support of entrepreneurial programmes). When these recommendations are discussed, they probably provide an unconscious perspective and alternative views of reality. These perceptions advance the (cultural) interests of powerful international actors.
- As the government is a field of struggle between some ruling groups to accumulate all sorts of power, especially economic and symbolic, the public rationalises Western practices as potential solutions to government problems and its insufficient interest in progress toward broader social moralities and justice.

These rationalisations intensify *cultural contradiction*. I mean here the contradiction between the embedded culture of internationally-driven Western practices with the embedded culture of indigenous practices (traditions, arrangements, and social structure). The story of the Kuwaiti modernisation project demonstrated some of these contradictions.

#### **9.5.1.2. Regional competition**

Another reason for rationalising reform, is that countries of the region started to reform their capital markets (probably) due to similar (hegemonic) interference and pressures. Regional practices stimulated an inter-states reform competition as each country started to look at the other. For example, how come my neighbour country is better ranked internationally than me? How come my neighbour can attract foreign monies and I cannot? How come my neighbour is a member of a prestigious international club, and I am not? This

level of inter-state competition was one of the essential reasons Kuwait modernised its financial systems. Following regional practices is explicitly mentioned in the explanatory memorandum of the enacted law of the new regulator (CMA, 2010, pp. 61-2).

Nonetheless, I found a similar dynamic to motivate inter-state competition with the IMF annual reports that recently began to compare Kuwait to regional countries in neoliberal terms (see Section 6.3). This makes me confident to argue that the way the globe is governed not only targets an individual country but also a cluster of countries that share similar social settings (culture) and location, through stimulating and motivating an inter-state ranking competition ignited by institutional jealousy.

### **9.5.1.3. National security as a reason**

An indirect reason for “why modernising social systems” is explained by Alsabah (2019). In a local television interview, Mr Naser Alsabah (son of the current *Amir*) who used to be the Minister of Defence and is expected to have a higher ruling position in the future, explained Kuwait’s interest in being part of the Chinese initiative to build an international Silk Road. In this interview, Alsabah explicitly argued that enticing foreign money to Kuwait provides international security to Kuwait from external threats as international power will protect their money inside Kuwait. Although this argument is centred around David Harvey’s theorisation of *New imperialism* (Harvey, 2003), I believe this way of thinking explains the reasons behind modernisation of the capital market and the political support for the new regulator. This argument is also found in Greek interest in being admitted to the EU to protect itself from Turkish threats (Caramanis, 2002) (see Section 2.3.1).

Institutional settings such as those of Kuwait, where some ruling groups dominate commercial activities, do not tend to attract foreign monies. On the contrary, it may expels foreign investors. Nonetheless, financial instruments (e.g., equity shares) do not necessarily require operational presence. Promoting the capital market ranking is a confidence message addressed to foreign investors. Changing audit practices is one of the pillars for reforming

the capital market. Modernising institutions and practices are solutions to promote ranking, attract foreign monies, and consequently achieve national security “rationality”.

### **9.5.2. Why late reform?**

Another critical question is that if modernity is perceived to be necessary, why was Kuwait a “late runner” to reforming its capital market system in comparison to regional countries? Interestingly, Halliday and Carruthers (2009) argued that sometimes countries approach IOs for funding not because they need money, but because conditions often associated with these funds empower some local groups over others.

Integrating Kuwait’s capital market in the international system meant the potential involvement of international investors in commercial activities in Kuwait. Such involvement threatens the symbolic power of merchant groups and their institutionalised mechanisms for accumulating economic power, often through the monopoly of government construction contracts (see Section 3.7.1). As large government construction contracts are often won by a few merchant families, the tension between the new regulator, the Chamber of Commerce (merchants lobby), and the banks regulator was the source of conflicting positions on modernising local institutions and opening Kuwait’s economy to international money.

I believe the implications of the global financial crisis on Kuwait created a “golden” opportunity for some ruling groups to overcome the internal forces of other ruling/merchant groups (that occupy prominent positions within bureaucratic agencies and the parliaments) and implement change. That said, as the state mainly depends on oil, the global financial crisis mainly affected the capital market due to intensive speculation activities by some ruling groups in a loosely regulated market. Many of the public found themselves deceived by some merchant groups (with commercial and trading activities) and reforming the capital market became a public demand that supported change in line with the agenda of some within the ruling class.

## **9.6. Chapter conclusion**

The modernisation of audit regulations in Kuwait highlights significant contradictions between Western traditions (embedded within international best practices) and the local social structure. It also shows allegiances, collaborations, confrontations, and deceptions between various social groups. In the case of Kuwait, the implementation of “international best practices” regulatory structures and technologies challenged the way the balance of power is maintained in society. It also indicates that the social system of collaboration began after interest-driven conflict between powerful groups was settled with segregation of authorities.

This chapter has further developed themes that were explained in my findings chapters. To understand the battle of “how” modernity was implemented, I discussed my findings on three correlated themes: first, an inter-governmental fight to change audit practice regulatory architecture. Second, the audit field reaction to the new regulator demands to change their practices. And finally, the implications of the auditors-regulator conflicts. I then moved to discuss my findings on why Kuwait modernised its capital market and audit regulations as well as why Kuwait was a late runner in modernising its capital market activities in comparison to regional countries.

Concerning how change happened, the first part of my story covered the inter-bureaucratic battle between three state financial regulators. As different ruling groups secured various positions within the bureaucratic field to advance their interests, I discussed that the inter-bureaucratic division in visions within the same government is a reflection of a higher (on the social space spectrum of power) level of struggle. It was a battle within the field of power between different ruling groups that occupy different (power) hierarchal positions in both the bureaucratic field as well as the field of power.

By claiming the power of “registration”, the new regulator secured a position in the audit regulatory space. They were backed by the political support of individuals who occupy high(est) position(s) in both the bureaucratic and power fields. The new regulator used its coercive power to confront opponents

and overrule their vision of regulatory reality. We saw this physical power used in many situations. For example, threatening listed companies with sanctions if they dealt with non-registered auditors. Suing the governor of CBK for potential violation of the law for something he did many years back. In fact, the way the capital market audit system was changed could be interpreted as a use of state coercive power to force different social groups to submit to its (changed) vision of reality.

I discussed that the case of suing the banking regulator delivered a clear message on clientelism in the enforcement of the law by the Kuwaiti bureaucratic institutions. These practices, I argued, are the Kuwait governance's strategy as a second layer of power and are often used when people constitute a threat to the power of dominators. I also gave an example of how the government is ruining Kuwaiti social life with practices to institutionalise *wasta* as a social norm, to accumulate this type of (second layer) power to control the society.

In the how question, I moved to discuss my second research question on the reaction of the audit field to the new regulator's audit modernisation programme. As the Kuwaiti audit field is dominated by a few Kuwaiti individual auditors backed by international brand names (Big 4), they used their accumulated social capital to influence the new regulator's decision to change "specific" regulatory practices but were not successful in stopping regulatory audit change. Accordingly, dominators of the audit field used the accounting association and formed a collective lobby to confront the new regulator and to advance their "private" interests. This lobby threatened the legitimacy of the new regulator by rejecting registering with it. Audit dominators approached the new regulator to deliver the collective decision but emphasised the illegality of designing regulations based on firms, which legally do not exist.

As the auditors' solution was accepted by the new regulator, this drew me to my third research area, a discussion of the outcome of the resistance. In this thesis, I focused on the customisation of two technologies which I found the most salient in the Kuwaiti modernisation programme. The rotation of

signatories was the result of changing the logic of firm rotation from the modernised regulations. Firm rotation was found to be a significant threat to the way influential auditors maintain their dominant position within the audit field, as market share and power between the Big 4 in Kuwait is noticeably unequal.

In discussing the change from firm to individual rotations, I provided a broader reflection on the CMA's approval of such customisation, especially because it was able to implement the concept of firm rotation within the existing Kuwaiti (individual-based) legal setting. I argued that firm rotation has more significant implications on the broader collaboration between some ruling groups to maintain their symbolic status. I discussed that firm rotation risks one of the Kuwaiti traditions, "keeping secrets". Arguably, the new regulator realised the embedded contradiction between firm rotation and the "secrets" of some ruling groups' (with commercial activities) sources of income. Accordingly, the prescription of the dominant auditors was accepted, deceiving both the global as well as the local to maintain order within ruling powers.

Concerning the second technology, I found that the silence of auditors on the new regulator's requirement to implement "full" prohibition on non-audit services is a "myth" that violated the basic idea of such a prohibition, reducing the economic dependence of auditors on their audit-clients. Influential auditors constructed the understanding of the Ministry of Commerce on the logic and meaning of such a prohibition. This idea was followed with the banking regulator when it attempted to follow the SOX prohibition. The (constructed) regulatory understanding became a norm that the new regulator followed. I also discussed that this could be an old recursivity logic that became a regulatory reality.

The second part of this chapter focused on why Kuwait modernised its capital market audit. I argued for three salient themes: first, *doxic* submission of society to the supremacy of Western practices and the reasons behind such beliefs. Second, to mimic regional modernisation practices. Third, for national security purposes. I then moved to explain why Kuwait was considered a "late



runner” in reforming their capital market in comparison with other markets in the region. I argued that the implications of the global financial crisis, along with public support for reform, backed by the support of IOs, provided an opportunity for some ruling groups to overcome the resistance of merchant groups who see integrating Kuwait with the international system could risk their monopoly over government construction contracts as well as the Kuwaiti private sector.

The following chapter concludes this thesis.

## 10.THESIS CONCLUSION

### 10.1. Introduction

The global trajectory for homogenising regulatory practices is mysterious. This thesis argues that the confrontation between the embedded culture of global norms and indigenous arrangements and practices stimulates local conflict which implicates struggle at the field of power. More specifically, this thesis aimed to evaluate the implementation of SOX-driven global norms to modernise audit regulations in Kuwait. To do so, four objectives have been pursued. First, to identify the dynamics that enabled the newly created regulator to dominate the regulatory space despite the long-time presence of other state financial regulators. Second, to assess the response of the audit field to the new regulator's modernisation agenda. Third, to evaluate the implications of the local battle between the new regulator and the accountancy profession. My final aim was to understand why Kuwait modernised its capital market audit regulations.

In terms of theoretical framing, my investigation was guided by two related (power) theoretical lenses: Pierre Bourdieu's practice (including his theory of the state) and Terence Halliday and Bruce Carruthers' theory of transnational recursivity. In a general sense, I found that applying global norms created a sea of local institutional and organisational conflict for power. The local battle(s) demonstrated the interest and practices of various (influential) social groups in the modernisation attempts to reproduce (and challenge) social, structure, order, and the balance of power, depending on actor(s) positions in the broader social space and relevant fields. Not only this, but to overcome wrangles within the ruling powers, some powerful local groups (including influential auditors) collaborated against global norms with the potential to significantly disturb the social order/structure. They did this by deceiving both global players and local citizens. Modernising the Kuwaiti capital market was driven by *doxic* submission to Western practices which was rationalised by some to overcome (ineffective) government arrangements, while others saw it as necessary for national security purposes.

The structure of this chapter is as follows. First, I will elaborate on the contributions that my study offers to existing knowledge. With some detail, I argue that this thesis makes three contributions to existing knowledge. First, the Kuwaiti “legalist” system is novel for the literature examining internationally-driven modifications to audit structural changes. My second contribution is the introduction of the process of international best practice micro-technologies to the critical accounting literature. Finally, an in-depth examination of the context of Kuwait contributes to scarce studies looking into the state-profession relationship in the non-West, in general, and the Arab world, in particular.

The second part of this chapter offers a number of practical implications for Kuwaiti policymakers.

Section three explains the potential limitations of the thesis. I argued for two main limitations to this thesis. First, an embedded epistemological risk to constructivist reality. Second, not challenging capitalism. Other limitations include, for example, not considering the parliamentary conflict (if any) surrounding the enactment of the law establishing the new regulator. Also, the exclusion of the vision of the merchant lobby (Chamber of Commerce) and companies on the audit regulations modernisation programme.

The fourth section elaborates on various proposals for future research and the final part concludes this chapter and this thesis.

## **10.2. Contributions to existing knowledge**

I argued in Section 2.7 that prior studies suffer from a number of limitations. This thesis aimed to fill the gaps in prior studies by making three significant contributions to existing knowledge.

### **10.2.1. Contribution 1: Confrontation between Western-driven internationalisation of structural logics with non-Western and non-corporatist traditions**

The first contribution this thesis makes is to emerging literature that examines the application of SOX-driven global-norms on audit regulatory structure (Alon et al., 2019; Canning and O'Dwyer, 2013, 2016; Caramanis et al., 2015; Hazgui and Gendron, 2015; Malsch and Gendron, 2011). These studies focused on the local challenges to change state-profession inherited corporatist arrangements by introducing a state body to oversee the practices of the audit profession. Although each of these studies has relatively different findings depending on countries' social dynamics and particularities of history and arrangements, they focus on corporatist systems in neoliberalised states.

This thesis contributes to this particular literature in the sense that, in addition to Kuwait being a unique context to this literature, Kuwait follows a "legalist" system. Such a difference in the mode of regulating audit produced a different dynamic of the struggle between affected groups. Accordingly, as this thesis suggested, the confrontation for regulatory change was not limited to being between the newly established oversight body and the audit profession, as most prior studies suggested, but it was mainly between government agencies.

Furthermore, unlike prior studies, because of the Kuwaiti (inherited) legalist system, with the guidance of Pierre Bourdieu's theory of the state (in particular), I was able to track the conflict of change to disputes between ruling classes within the field of power.

### **10.2.2. Contribution 2: The myth of the implementation of international best practice micro audit technologies**

Prior studies focused mainly on regulatory structural changes by introducing a new oversight body. My second contribution is by introducing an examination of the process of implementing international best practices audit microtechnologies to the critical accounting domain. As I demonstrated in

Section 2.6, very scarce prior studies in the public administration literature (with many limitations discussed in Section 2.6.1) considered the implications of the global diffusion of “international best practices” in Africa. In the non-positivist accounting literature, to my knowledge, both the concept and the process of international best practices does not exist.

I examined audit technologies that lie within the logic of international best practices: firm rotation and SOX-driven prohibition of non-audit services which happen to be rarely considered in non-positivist accounting studies. This study suggests that the Kuwaiti case implemented these technologies in appearance, and that they were manipulated so as not to affect the status quo. This, I believe, is a significant contribution which may open a new space in the accounting literature to consider the concept and the processes around the global diffusion of international best practice micro-technologies in the accounting domain.

### **10.2.3. Contribution 3: The Kuwaiti example of the relationship between the “state” and the audit profession in the non-Western literature**

Non-positivist studies on the state-accountancy profession relationship are mainly Western-dominated (Spence et al., 2019). Such societies are governed by neoliberal states and frequently with an inherited corporatist system. In the non-Western part of the world, studies within this domain often focus on the historical nature for formulations of the accountancy profession, with few studies on the contemporary relationship between the state and the accountancy profession. In a recent literature review study, Chua et al. (2019), correctly argued that non-Western studies on accountancy still lack in-depth examination of states that are different from the West. Similarly, research that investigates the interaction between international standards and local practices is scarce (Mennicken, 2008, p. 385).

In the Arab world, critically inspired accounting research is scant (Gallhofer et al., 2011) and studies on the state-accountancy profession relationship are

even fewer. In fact, to my knowledge, outside a few historical studies on the formation of local accountancy bodies, there are no studies on contemporary (regulatory) practices within the state-profession nexus in the Arab world. A recent paper was just released on the professionalisation of accounting in Iran with different focus (Mihret et al., 2019). However, Iran is not an Arab country. This thesis contributes to the lack of studies on the state-accountancy profession relationship in the Arab world in general, and the Arabian Gulf countries (with their many cultural similarities) in particular.

### **10.3. Practical implications**

I could argue that based on my findings, policymakers must consider modernising accounting and auditing. Still, I know that accounting carries embedded logics that reinforce capital and power structures (Miller, 1990), and contemporary audit stimulates specific modes of governance aiming to make things auditable (Power, 1997) to benefit the expansion of the accountancy profession (Willmott, 1986). Instead, I will focus on audit regulatory “practices”.

Halliday and Carruthers (2009) in their book (Chapter 11) provided valuable recommendations aiming to correct the trajectory of global governance. Accordingly, in this section, I will focus on implications that are relevant to Kuwaiti policymaking (my case) which I think could be extended to other regulated professional fields in Kuwait, and also to countries that follow similar “legalist” arrangements. Especially because Kuwait and its regional countries started to move toward a neoliberal economic agenda, a system that has been theorised to prioritise capital over social welfare and democracy (Bourdieu, 1998b; Brown, 2015).

My findings argued for several significant problems within Kuwait’s audit regulatory system:

- Individual-based audit law is problematic and offers an “easy” exit strategy for licenced auditors in cases of audit errors. Audit firms (as a concept and process)--international and local--do exist, but in the contemporary regulatory arrangements, they are not regulated.

- The legal responsibility of audit lies on the licenced auditor who signs the audit report. However, audit firms are full of expatriates at all managerial levels, with no state regulations to govern their practices. This regulatory gap also extends to un-licenced Kuwaitis who work in the audit function within audit firms.
- Allowing the accountancy profession (especially representatives from the Big 4) to participate in the Ministry of Commerce committees offers them an excellent opportunity to enlarge their social capital (with regulators and companies) and advance their interests. Section 8.4.1 of this thesis elaborated how influential auditors constructed the understanding of regulators to advance their interests on their ability to provide advisory services. Nonetheless, it is not right that a “few” influential auditors represent the “majority” of the profession.
- It is not logical that auditors occupy the disciplinary system. In the collegial relationship environment, technical know-how may never reflect an independent opinion.
- The customised rotation system needs to be fixed to allow other firms to acquire knowledge and upset the oligopoly of the “few” powerful auditors who represent a few large international audit firms. Similarly, the current structure of advisory services needs to be re-evaluated to ensure auditors focus on their primary social rule, which is to audit.
- Joint audit, if enforced properly, offers small firms opportunities to enlarge. However, the earlier version of the Kuwaiti Joint Audit (1994-2012) was subverted due to a lack of proper regulatory arrangements and oversight. In a similar vein, CBK could include more firms in the external audit of banks, instead of its reliance on two audit firms, contributing to their domination in the audit field.
- Kuwait satisfies global demands for institutional change by adding different (non-independent) agencies to the existing ministerial structure specified/organised by the constitution. The expansion of bureaucratic agencies in regulating social life is unhealthy. Different ruling groups follow strategies to occupy senior positions in these agencies to advance their

interests. Especially, new agencies are not under direct accountability to the parliament. Such a system intensifies conflict within the bureaucratic field, each actor aiming to implement its (private) vision of reality at the cost of marginalising the focus on social progress. The regulatory architecture should be redefined to reflect public interest infused arrangements. The intergovernmental conflict to modernise capital market regulations proves that.

The Kuwait audit regulatory arrangement was designed and implemented for a different era. Influential auditors adhere to these regulations because it is the perfect law for helping them maintain their symbolic position and resist/reject changes that challenge the structure of the audit field. Regulatory reform is worthy, but not on global norm terms. Change must consider strengthening moral behaviours, equal opportunities, justice, societal welfare, and design an audit system that revokes the domination of a “few” influential auditors.

I think that the government cares about the practices of the accountancy profession, as evidenced by attempts of the Ministry of Commerce to include auditors to help them in this function as well as reforming auditor practices for listed companies. However, they do not know how to do it properly in the presence of influential auditors who legitimise the activities of some powerful social groups that “help” in ruling and maintaining the order of the broader society.

Outside the audit regulatory space, in Section 5.4.3.2, I explained the occupational concerns of my interviewees in state bureaucratic agencies about disclosing data to academic interviews. Government agencies are encouraged to implement formal procedures for academic interviews to protect their staff and researchers. At the end of the day, a public intellectual’s main aim is to improve the social system (Cooper, 2005).

#### **10.4. Limitations**

There are a few limitations in this thesis. I believe the main limitation is one embedded within subjective methodology--one salient threat is an



epistemological risk by not reflecting the truth of people's views. However, there are a number of measures that I adopted to minimise such risks. For example, collecting data from a representative sampling (key actors in the regulatory audit space), careful data analysis, and employing (external) theoretical lenses to minimise such a threat. Nonetheless, I believe, epistemological risk is inescapable in interpretive philosophy.

Empirically, this thesis focused on the regulatory audit domain and found that the relationship between and within influential auditors and some of the ruling powers underpinned the regulatory trajectory for modernising local financial systems. I believe there are two empirical limitations to this thesis. First, as I did not consider the parliamentary enactment of the law of establishing the new regulator, I do not know the type of conflict (if any) that surrounded the establishment of the new regulator. However, not a single issue related to the process of parliamentary enactment of the law on the creation of the new regulator came to my attention during my data collection or analysis.

Second, it would have been valuable if I had extended my research boundaries to include locally-owned listed banks and the merchant lobby (the Chamber of Commerce) to understand their perception of the broader regulatory modernising trajectory. Also, the underpinning logic that guides their relationship with the new and old financial regulators might provide an interesting subject of study. However, before my data collection phase, I did some tentative investigation and found that merchant lobby and local banks know little on the dynamics of the audit regulatory struggle, which encouraged me to exclude them from my research design (see Section 5.4.2).

With regard to the financial system of the Kuwaiti context, besides well-documented studies on *Souk Almanakh*, I could not find much in the way of historical sources that explain the evolution of the financial system in general and corporate audit arrangements in particular within the broader social context (Altaher et al. (2014) is an exception). A few mainstream studies on the Kuwaiti regulatory structure do exist, but they merely touch the surface of the complex dynamics of social life. The majority of historical work on the

Kuwaiti context is on the evolution of the political system, not the economic one.

Another important limitation, although I tried to extend my research boundaries to understand the logic of practice at the level of the Kuwaiti state as well as the individual, I am still constrained by the capital logic (which is reflected in this thesis). What I mean is that in this thesis, I did not position myself to challenge the logic of audit and/or capital-driven regulations as one of the instruments of capitalism (and its advanced form, neoliberalism) to regulate social life.

### **10.5. Recommendations for future research**

This study found that the implementation of international best practice regulatory arrangements as well as micro audit technologies infused struggle within some ruling groups. Each influential actor or group of actors used strategies to maintain their symbolic domination. As each society has different power dynamics, future studies could explore how the implementation of global accountancy norms affect the balance of power in societies.

As many prior studies examined internationally-driven regulatory change in corporatist systems (see Section 2.5.2), in this thesis I focused on the “legalist” system of Kuwait, future studies may focus on different modes of regulation or other societies. On the other hand, as micro internationally driven regulations had not been given much consideration in critical accounting in both Western and non-Western contexts, future studies may consider examining their implementation and implications.

In Section 2.4, I examined studies on the sociology of the audit profession that used Bourdieu’s practice theory. However, one of the salient themes that emerged during my analysis of the conflict surrounding firm rotation is the multiplicity of visions within the Big 4 (see Section 7.3.1). Interests in firm rotation varied depending on the actors’ positions in the audit field. Interestingly, however, Bourdieusian sociological studies often group the Big

4 as a field without recognising differences in their positions. Accordingly, future studies are encouraged to investigate conflict within the Big 4 field.

Another related area of future research could explore the role of the state in the broader accountancy domain. As I demonstrated in Section 2.2.2, the accounting literature has been packed with studies that examine the corporatist system of the accountancy profession in Western neoliberal arrangements. However, unlike the Suddaby et al. (2007) theorisation on the importance of the state in advancing global norms to local terrains, the state and its power are less appreciated in business research (Kourula et al., 2019) especially after transnational activities intensified (Samsonova-Taddei and Humphrey, 2014). Similarly, within non-Western contexts, Chua et al. (2019) argued that we still do not know much about the state-profession relationship in southern systems. Future research is recommended to consider state power in their investigations; such research design may contribute to knowledge on the role of the state in the organisation of society.

Nonetheless, global norms such as ranking, transparency, benchmarking, and international best practices are not given much consideration in the broad (critically-driven) social science literature. This study provides a novel perspective on how Kuwait dealt with and incorporated international best practices in audit regulations. Still, as these terminologies and concepts are used by global actors to govern the global neoliberal space and to construct the rationalities of societies (Brown, 2015), the accounting literature does not know much about the dynamic of their production and consumption. Accordingly, future studies may consider the confrontation of these norms with local accountancy settings.

In Section 2.2.1, I argued that there are few studies that examined regional influences on national arrangements of audit practices. The majority of prior studies looked into the EU standardisation programme. The Gulf Cooperation Council (GCC) has a dedicated organisation that attempts to regulate accounting and auditing in GCC members: GCC Accounting and Auditing Organisation. Examining this organisation and the mutual influence with their

member states might provide some insights to prior studies that examined the dynamic of regional influence on the relationship between the state and the audit profession.

At the micro Kuwait level, critically-inspired studies are minimal. Future studies are encouraged to adopt a critical perspective to investigate accountancy and business-related social problems. Such a perspective is a powerful way to discover truth through challenging the systems of taken-for-granted (dogmas). Kuwait and many Arab countries are heavily driven by religious beliefs. I did not find any links between religion and the struggle to modernise audit regulations. Future studies are recommended to investigate the role of the Islamic religion on local audit regulations as well as auditors practices.

Furthermore, there is a lack of studies which examined the history of Kuwait's financial system in general and its audit arrangements in particular. A clear correlation in Kuwait exists between oil prices, regional geopolitical tension, and political stability. Nonetheless, the history of economic crisis (other than *Souk Almanakh*) is poorly documented. Future studies are recommended to consider these issues in addition to other factors (e.g., transnationalism) in examining the history of accountancy regulations and professions.

One of the arguments of this thesis is that merchant groups, auditors, banks, and some financial regulators collaborated to confront the new regulator's modernisation agenda. Within the Kuwaiti context, we do not know much about the arrangements that guide the relationship between influential auditors and business elite groups. For example, the CBK restricts the audit of local banks only to the Big 4. However, one bank that is controlled by a member of the royal family used to be audited by Ernst and Young and Deloitte. In the last few years, Ernst and Young was replaced by RSM (a non-Big 4 firm). Why is that? Do financial regulators regulate local corporations unequally? Are international audit firms categorised by their loyalty to local influential social groups? We do not know much about the relationship between international audit firms and the ruling classes within countries.

Finally, Hammond et al. (2017) emphasised focusing on the implications of the conflict for power in future studies. In critical studies, implications of struggle are often very challenging to capture. That is why, I believe, many prior studies focused on the battle for power and often did not extend their research to include what happens next or explicitly discuss the implications of conflicts. I found, in Kuwait, to maintain local order between elite social groups, the outcome of the regulatory struggle to modernise regulations incorporated factors of deception. I support the recommendations of Hammond et al. (2017) to consider the implications of the struggle for power in future studies.

## **10.6. Concluding remarks**

This chapter aimed to close this thesis by providing its aim and objectives, contribution, practical implications, limitation, and recommendations for future studies. This study provided a novel approach and insight on the application of global norms to audit regulations in Kuwait, a country distant from the culture of global norm producers. My investigation enhances our understanding of many un-discovered themes in the accountancy domain.

This study aimed to investigate how and why Kuwait modernised its capital market audit regulations. The investigation of the application of modernity is a complex field of inquiry. It demands a thorough understanding of issues from global (direct and indirect) interference, the dynamic of power within a state, to the operation of a field (audit in my case), and then to the practices of individuals who dominate a field.

I argued that this thesis made three contributions to shortages in prior studies. First, to prior studies that examined internationally driven regulatory change (Alon et al., 2019; Canning and O'Dwyer, 2013, 2016; Caramanis et al., 2015; Hazgui and Gendron, 2015; Malsch and Gendron, 2011), by theorising the unique Kuwaiti context and its different mode of regulations. Second, my thesis advanced the idea of questioning the process of implementing international best practice micro audit technologies. Third, communicating contemporary issues on the relationship between the Kuwaiti state and the audit profession in a non-Western context.

The literature assumes that international organisations influence changes to indigenous traditions either directly through structural conditions on capital, or indirectly through published reporting and recommendations. However, in the beginning of my introduction chapter, I considered the coercive and non-coercive power of IOs as direct, and argued that the indirect involvement of international forces in the national space is more complicated.

The global space is neoliberally governed through the collaboration of different international players. It started with the support of global hegemonic states to empowering the IOs to re-constitute its neoliberal (cultural) vision on the global economic space (Arnold, 2012; Halliday and Carruthers, 2009). Various international players arose to *support* such a hegemonic trajectory and form different layers of pressure for the cultural transformation of countries.

In this thesis, we saw how Kuwait was trapped into following the global neoliberal path. Starting from exogenous (indirect) pressure, the way the global space is neoliberally designed and governed through rating, ranking, and “international best practices”, to the (direct) interference of IOs through constructing the rationality of the society to align to their designed international architecture, maintained by supportive international players.

We saw how capital market ranking agencies (international payers) conditioned countries to become members of prestigious international clubs, such as IOSCO. The benchmark in financial practices is often the US. Accordingly, for a country to be able to admitted to IOSCO, it is conditioned to adopt certain governance practices at the regulatory level, for listed companies as well as auditors. Other ranking agencies condition ranking promotion of a certain level of liquidity within the capital market to stimulate national financialisation. To achieve this requirement, countries either prioritise attracting foreign and/or local monies for listing or to intensify national privatisation programmes.

What we saw in the Kuwaiti case is that when global interference reached a point that affected the order and symbolic positions of dominant actors within a society, things begin to take an internal conflict course. Influential actors use

all the means at their disposal to maintain their symbolic position in the broader social space and the fields that they dominate. Deceiving global demands through *symbolic compliance* is often the easiest way (Halliday and Carruthers, 2009). The way the global space is governed offers countries opportunities to engage in malpractice. Manipulation of rules to protect one's interests in maintaining or accumulating economic and symbolic capitals, especially if they are imposed by the government and then the same government authorises the misuse, could extend the self-interest defiance practices to society and could become a norm that threatens the morality of the society, intensifies cultural contradictions, and possibly, leads to corruption.

## References

- Abu-Hakima, A. (1984), *The Modern History of Kuwait: 1750-1965*, 1st ed., That Alsasil, Kuwait.
- Al-Sultan, F. (1989), *Averting Financial Crisis - Kuwait*, The World Bank, Washington, DC, available at: <http://documents.worldbank.org/curated/en/316161468772184431/Kuwait-Averting-financial-crisis> (accessed 17 January 2019).
- Alanba. (2016), "Proposal to change the audit law", *Alanba Newspaper*, Kuwait, 6 June, available at: <https://www.alanba.com.kw/ar/economy-news/657530/06-06-2016--الانباء-تنشر-مقترح-مشروع-قانون-مزاولة-مهنة-مراقبة-الحسابات/> (accessed 4 October 2016).
- Alarabiya. (2017), "Kuwait: 400 billion U.S. dollars investments of our fund in America", 7 September, available at: <https://www.alarabiya.net/ar/aswaq/economy/2017/09/07/-الكويت-400-مليار-دولار-استثمارات-الصندوق-السيادي-بأمريكا> (accessed 14 October 2019).
- Aljazeera. (2016), "Dissolutions of the Kuwaiti National Assembly .. cases and reasons", available at: <https://www.aljazeera.net/encyclopedia/events/2016/10/17/-حل-مجلس-الأمة-الكويتي-الحالات-والأسباب> (accessed 10 October 2019).
- Alloway, T. (2013), "US lawmakers block 'auditor rotation'", *Financial Times*, available at: <https://www.ft.com/content/31c73408-e830-11e2-babb-00144feabdc0> (accessed 16 March 2016).
- Almoqatei, M. (2010), "The legal status of Kuwait chamber of commerce and industry and its nature", *Journal of Law; Kuwait University*, available at: [http://www.kuwaitchamber.org.kw/echamber/website/index.jsp?pageID=ws\\_cmssmenu.jsp&searchIn=8&searchGroup=3&menuID=401&rootMenu=401#:searchListReport@1](http://www.kuwaitchamber.org.kw/echamber/website/index.jsp?pageID=ws_cmssmenu.jsp&searchIn=8&searchGroup=3&menuID=401&rootMenu=401#:searchListReport@1) (accessed 8 July 2019).
- Alnfese, A. (2017), "The Interview: meeting with Abdullah Alnfese (part 1)", *Aljazeera*, available at: <https://www.youtube.com/watch?v=GknsmbRss7o> (accessed 26 July 2018).
- Alon, A., Mennicken, A. and Samsonova-Taddei, A. (2019), "Dynamics and Limits of Regulatory Privatization: Reorganizing audit oversight in Russia", *Organization Studies*, Vol. 40, No. 8, pp. 1217–1239.
- Alqabas Newspaper. (2018), "Altejara: Approving 98 audit firms", Kuwait, 17 February, available at: <https://alqabas.com/502911/> (accessed 28 January 2019).
- Alqabas Newspaper. (2019), "74 government agencies managed by 15 ministers", 5 January, available at: <https://alqabas.com/article/622445-74-جهة-حكومية-يديرها-15-وزيراً> (accessed 7 October 2019).
- Algenaei, Y. (1946), *Pages from the History of Kuwait*, Dar Saad Maser, Cairo, Egypt.



- Alrushaid, A. (1978), *Kuwait History*, Dar Maktabat Alhayat, Beirut - Lebanon.
- Alsabah, N. (2019), "An interview with HH Naser Sabah Alsabah on Kuwait vision 2035", *Kuwait Television*, available at: <https://www.youtube.com/watch?v=xwm323N16y4> (accessed 30 March 2019).
- Alshahed Newspaper. (2014), "Six families tookover 95% of Kuwait tenders", 12 January, available at: <http://alshahed.net/103724/> (accessed 7 January 2019).
- Altaher, N., Dyball, M. and Evans, E. (2014), "A study of the emergence of the Kuwaiti Association of Accountants and Auditors", *Accounting History*, Vol. 19, No. 1–2, pp. 255–278.
- Andrew, J., Cooper, C. and Gendron, Y. (2019), "Addressing the english language hegemony problem in academia: An ongoing experiment and preliminary policy", *Critical Perspective on Accounting, Editorial*, In press.
- Andrews, M. (2008), "The good governance agenda: Beyond indicators without theory", *Oxford Development Studies*, Vol. 36, No. 4, pp. 379–407.
- Andrews, M. (2010), "Good governance means different things in different countries", *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 23, No. 1, pp. 7–35.
- Andrews, M. (2012), "The logical limits of best practice administrative solutions in developing countries", *Public Administration and Development*, Vol. 32, pp. 137–153.
- Arnold, P. (2005), "Disciplining domestic regulation: the World Trade Organization and the market for professional services", *Accounting, Organizations and Society*, Vol. 30, pp. 299–330.
- Arnold, P. (2009), "Global financial crisis: The challenge to accounting research", *Accounting, Organizations and Society*, Vol. 34, pp. 803–809.
- Arnold, P. (2012), "The political economy of financial harmonization: The East Asian financial crisis and the rise of international accounting standards", *Accounting, Organizations and Society*, Vol. 37, pp. 361–381.
- Arnold, P. and Sikka, P. (2001), "Globalization and the state-profession relationship: The case the Bank of Credit and Commerce International", *Accounting, Organizations and Society*, Vol. 26, pp. 475–499.
- Belal, A., Spence, C., Carter, C. and Zhu, J. (2017), "The Big 4 in Bangladesh: Caught between the Global and the Local", *Accounting, Auditing & Accountability Journal*, Vol. 30, No. 1, pp. 145–163.
- Bourdieu, P. (1986), "The forms of capital", in Richardson, J. (Ed.), *Handbook of Theory and Research for the Sociology of Education*, Greenwood Press, New York, Connecticut and London, pp. 241–258.

- Bourdieu, P. (1989), "Social Space and Symbolic Power", *Sociological Theory*, Vol. 7, No. 1, pp. 14–25.
- Bourdieu, P. (1990), *The Logic of Practice*, Polity Press, Cambridge and Oxford.
- Bourdieu, P. (1992), "The Left Hand and the Right Hand of the State", *Le Monde*, available at: <http://www.variant.org.uk/32texts/bourdieu32.html> (accessed 17 January 2018).
- Bourdieu, P. (1994), "Rethinking the State: Genesis and Structure of the Bureaucratic Field", *Sociological Theory*, Vol. 12, No. 1, pp. 1–18.
- Bourdieu, P. (1996), *The State Nobility: Elite Schools in the Field of Power*, Polity Press, Cambridge and Oxford.
- Bourdieu, P. (1998a), "The essence of neoliberalism", *Le Monde Diplomatique*, available at: <https://mondediplo.com/1998/12/08bourdieu> (accessed 31 October 2017).
- Bourdieu, P. (1998b), *Act of Resistance: Against the New Myths of Our Time*, Polity Press, Cambridge and Oxford.
- Bourdieu, P. (1999), "The Abdication of the State", *The Weight of the World: Social Suffering in Contemporary Society*, Polity, Cambridge and Malden, pp. 181–188.
- Bourdieu, P. (2002), "The politics of globalisation", *Open Democracy*, available at: [https://www.opendemocracy.net/democracy-vision/reflections/article\\_283.jsp](https://www.opendemocracy.net/democracy-vision/reflections/article_283.jsp) (accessed 12 January 2018).
- Bourdieu, P. (2004), "From the King's House to the Reason of State: A Model of the Genesis of the Bureaucratic Field", *Constellations: An International Journal of Critical and Democratic Theory*, Vol. 11, No. 1, pp. 16–36.
- Bourdieu, P. (2005), *The Social Structures of the Economy*, Polity Press, Cambridge and Malden.
- Bourdieu, P. (2014), *On the State: Lectures at the Collège de France, 1989–1992*, Polity Press, Cambridge and Malden.
- Bourdieu, P. and Wacquant, L. (1992), *An Invitation to Reflexive Sociology*, The University of Chicago Press, Chicago.
- Braun, V. and Clarke, V. (2006), "Using thematic analysis in psychology", *Qualitative Research in Psychology*, Vol. 3, No. 2, pp. 77–101.
- Brenchley, F. (1989), *Britain and the Middle East: Economic History, 1945–87*, Lester Crook Academic Publishing, London.
- Brown, W. (2015), *Undoing the Demos: Neoliberalism's Stealth Revolution*, Zone Books, New York.
- Bryman, A. (2016), *Social Research Methods*, 5th ed., Oxford University Press, Oxford.

- Bryman, A. and Bell, E. (2015), *Business Research Methods*, 4th ed., Oxford University Press, Oxford.
- Burrell, G. and Morgan, G. (1979), *Sociological Paradigms and Organisational Analysis*, Ashgate Publishing Limited, England and USA.
- Callanan, B. and Weiler, D. (2008), War Budgeting Strategies: Case Studies of The Gulf War and The Iraq War, *Harvard Law School Federal Budget Policy Seminar*, Vol. 39, available at: [http://www.law.harvard.edu/faculty/hjackson/WarBudgeting\\_39.pdf](http://www.law.harvard.edu/faculty/hjackson/WarBudgeting_39.pdf) (accessed 6 February 2017).
- Canning, M. and O'Dwyer, B. (2013), "The dynamics of a regulatory space realignment: Strategic responses in a local context", *Accounting, Organizations and Society*, Vol. 38, pp. 169–194.
- Canning, M. and O'Dwyer, B. (2016), "Institutional work and regulatory change in the accounting profession", *Accounting, Organizations and Society*, Vol. 54, pp. 1–21.
- Caramanis, C. (1999), "International accounting firms versus indigenous auditors: Intra-professional conflict in the Greek auditing profession, 1990-1993", *Critical Perspectives on Accounting*, Vol. 10, No. 2, pp. 153–196.
- Caramanis, C. (2002), "The interplay between professional groups, the state and supranational agents: Pax Americana in the age of 'globalisation'", *Accounting, Organizations and Society*, Vol. 27, No. 4–5, pp. 379–408.
- Caramanis, C., Dedoulis, E. and Leventis, S. (2015), "Transplanting Anglo-American accounting oversight boards to a diverse institutional context", *Accounting, Organizations and Society*, Vol. 42, pp. 12–31.
- Carter, C. and Spence, C. (2014), "Being a Successful Professional: An Exploration of Who Makes Partner in the Big 4", *Contemporary Accounting Research*, Vol. 31, No. 4, pp. 949–981.
- Casey, M. (2007), *The History of Kuwait*, Greenwood Press, Connecticut and London.
- Catchpowle, L., Cooper, C. and Wright, A. (2004), "Capitalism, states and accounting", *Critical Perspectives on Accounting*, Vol. 15, No. 8, pp. 1037–1060.
- CBK. (2002), "Instructions for banks on internal control systems", *Central Bank of Kuwait*, available at: [https://www.cbk.gov.kw/ar/images/28part2-112676\\_v30\\_tcm11-112676.pdf](https://www.cbk.gov.kw/ar/images/28part2-112676_v30_tcm11-112676.pdf) (accessed 14 February 2017).
- CBK. (2012), "Corporate Governance for Kuwaiti Banks", *Central Bank of Kuwait*, available at: <http://www.cbk.gov.kw/ar/images/28P2-11-112676-2.pdf> (accessed 15 May 2018).

- CBK. (2018), "Memorandum of Understanding on the definition of coordination between the Central Bank of Kuwait and the Capital Markets Authority", *Central Bank of Kuwait*, available at: [https://www.cbk.gov.kw/ar/images/mou-125718\\_v50\\_tcm11-125718.pdf](https://www.cbk.gov.kw/ar/images/mou-125718_v50_tcm11-125718.pdf) (accessed 14 August 2018).
- CBK. (2019), "Instructions on the principles and system of governance in Kuwaiti Banks", *Central Bank of Kuwait*, Kuwait, available at: [https://www.cbk.gov.kw/ar/images/governance-inst\\_v00\\_tcm11-144645.pdf](https://www.cbk.gov.kw/ar/images/governance-inst_v00_tcm11-144645.pdf) (accessed 6 November 2019).
- CBK. (n.d.). "Chapter Six: Instructions concerning External Auditor", *Central Bank of Kuwait*, available at: [https://www.cbk.gov.kw/en/images/expart6en-137774\\_v20\\_tcm10-137774.pdf](https://www.cbk.gov.kw/en/images/expart6en-137774_v20_tcm10-137774.pdf) (accessed 1 October 2019).
- Chua, W. (1986), "Radical Developments in Accounting Thought", *The Accounting Review*, Vol. LX1, No. 4, pp. 601–632.
- Chua, W.F., Dyball, M. and Yee, H. (2019), "Professionalization in Asia – whence and whither", *Accounting, Auditing and Accountability Journal*, Vol. 32, No. 8, pp. 2253–2281.
- CMA. (2010), "Law No. 7 of 2010", *Capital Market Authority*, available at: <https://www.cma.gov.kw/ar/web/cma/cma-handbook> (accessed 24 July 2017).
- CMA. (2019), "Registered auditors", *Capital Market Authority*, available at: <https://www.cma.gov.kw/ar/web/cma/list-of-auditors> (accessed 4 February 2019).
- Cooper, C. (2005), "Accounting for the Public Interest: public ineffectuals or public intellectuals?", *Accounting, Auditing & Accountability Journal*, Vol. 18, No. 5, pp. 592–607.
- Cooper, C. and Joyce, Y. (2013), "Insolvency practice in the field of football", *Accounting, Organizations and Society*, Vol. 38, No. 2, pp. 108–129.
- Cooper, C., Tweedie, J., Baker, M. and Andrew, J. (2019), "Agencification - replacing liberal democracy with neoliberal accountability", *Manuscript Submitted for Publication*.
- Cooper, D. (1983), "Tidiness, muddle and things: Commonalities and divergencies in two approaches to management accounting research", *Accounting, Organizations and Society*, Vol. 8, No. 2–3, pp. 269–286.
- Cooper, D., Puxty, T., Robson, K. and Willmott, H. (1996), "Changes in the International Regulation of Auditors: (In)Stalling the Eighth Directive in the UK", *Critical Perspectives on Accounting*, Vol. 7, No. 6, pp. 589–613.
- Cooper, D. and Robson, K. (2006), "Accounting, professions and regulation: Locating the sites of professionalization", *Accounting, Organizations and Society*, Vol. 31, pp. 415–444.

- Cooper, D. and Sherer, M. (1984), "The value of corporate accounting reports: Arguments for a political economy of accounting", *Accounting, Organization and Society*, Vol. 9, No. 3/4, pp. 207–232.
- Crystal, J. (1990), *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*, Cambridge University Press, Cambridge, New York and Melbourne.
- Cunliffe, A. (2011), "Crafting Qualitative Research: Morgan and Smircich 30 Years On", *Organizational Research Methods*, Vol. 14, No. 4, pp. 647–673.
- Davis, K., Kingsbury, B. and Merry, S. (2012), "Introduction: Global Governance by Indicators", in Davis, K., Fisher, A., Kingsbury, B. and Merry, S. (Eds.), *Governance by Indicators: Global Power through Quantification and Rankings*, 1st ed., Oxford University Press, Oxford, pp. 3–28.
- Dyball, M. and Valcarcel, L. (1999), "The 'rational' and 'traditional': The regulation of accounting in the Philippines", *Accounting, Auditing & Accountability Journal*, Vol. 12, No. 3, pp. 303–327.
- Eastern Laws Network. (2017a), "Kuwait Law number 6 of 1962", available at: <https://site.eastlaws.com/GeneralSearch/Home/ArticlesTDDetails?MasterID=605999&related> (accessed 1 October 2019).
- Eastern Laws Network. (2017b), "Kuwait Law number 3 of 1965", available at: <https://site.eastlaws.com/GeneralSearch/Home/ArticlesTDDetails?MasterID=620474&related> (accessed 1 October 2019).
- Emirbayer, M. and Johnson, V. (2008), "Bourdieu and organizational analysis", *Theory and Society*, Vol. 37, No. 1, pp. 1–44.
- Espeland, W. and Sauder, M. (2007), "Rankings and Reactivity: How Public Measures Recreate Social Worlds", *American Journal of Sociology*, Vol. 113, No. 1, pp. 1–40.
- Everett, J. (2002), "Organizational Research and the Praxeology of Pierre Bourdieu", *Organizational Research Methods*, Vol. 5, No. 1, pp. 56–80.
- Everett, J. (2018), "Bourdieu", in Roslender, R. (Ed.), *The Routledge Companion to Critical Accounting*, 1st ed., Routledge, pp. 109–123.
- Ezzamel, M. and Xiao, J. (2011), "Accounting in Transitional and Emerging Market Economies", *European Accounting Review*, Vol. 20, No. 4, pp. 625–637.
- Ezzamel, M. and Xiao, J. (2015), "The development of accounting regulations for foreign invested firms in China : The role of Chinese characteristics", *Accounting, Organizations and Society*, Vol. 44, pp. 60–84.

- Fifield, A. (2013), "Contractors reap \$138bn from Iraq war", *Financial Times*, available at: <https://www.ft.com/content/7f435f04-8c05-11e2-b001-00144feabdc0> (accessed 21 January 2019).
- Fiolleau, K., Hoang, K., Jamal, K. and Sunder, S. (2013), "How do regulatory reforms to enhance auditor independence work in practice?", *Contemporary Accounting Research*, Vol. 30, No. 3, pp. 864–890.
- Fougner, T. (2008), "Neoliberal governance of states: The role of competitiveness indexing and country benchmarking", *Millennium: Journal of International Studies*, Vol. 37, No. 2, pp. 303–326.
- Friedland, R. (2009), "The Endless Fields of Pierre Bourdieu", *Organization*, Vol. 16, No. 6, pp. 887–917.
- Gallhofer, S., Haslam, J. and Kamla, R. (2011), "The accountancy profession and the ambiguities of globalisation in a post-colonial, Middle Eastern and Islamic context: Perceptions of accountants in Syria", *Critical Perspectives on Accounting*, Vol. 22, No. 4, pp. 376–395.
- Guba, E. and Lincoln, Y. (1994), "Competing Paradigms in Qualitative Research", in Lincoln, Y. and Denzin, N. (Eds.), *Handbook of Qualitative Research*, Sage Publication, pp. 105–117.
- Halliday, T. and Carruthers, B. (1996), "The moral regulation of markets: Professions, privatization and the english insolvency act 1986", *Accounting, Organizations and Society*, Vol. 21, No. 4, pp. 371–413.
- Halliday, T. and Carruthers, B. (2007a), "The Recursivity of Law: Global Norm Making and National Lawmaking in the Globalization of Corporate Insolvency Regimes", *American Journal of Sociology*, Vol. 112, No. 4, pp. 1135–1202.
- Halliday, T. and Carruthers, B. (2007b), "Foiling the Financial Hegemons: Limits to the Globalisation of Corporate Insolvency Regimes in Indonesia, Korea and China", in Antons, C. and Gessner, V. (Eds.), *Globalisation and Resistance: Law Reform in Asia since the Crisis*, Hart Publishing, Oxford, Portland and Oregon, pp. 255–296.
- Halliday, T. and Carruthers, B. (2007c), "Institutionalizing Creative Destruction: Predictable and Transparent Bankruptcy Law in the Wake of the East Asian Financial Crisis", in Jung-En Woo, M. (Ed.), *Neoliberalism and Institutional Reform in East Asia: A Comparative Study*, Palgrave Macmillan, pp. 238–280.
- Halliday, T. and Carruthers, B. (2009), *Bankrupt: Global Lawmaking and Systemic Financial Crisis*, Stanford University Press, California.
- Hamilton, G. and HÓgartaigh, C. (2009), "The Third Policeman: 'The true and fair view', language and the habitus of accounting", *Critical Perspectives on Accounting*, Vol. 20, No. 8, pp. 910–920.



- Hammond, T., Cooper, C. and Staden, C. (2017), "Anglo American Corporation and the South African State: A contextual analysis of annual reports 1917-1975", *Accounting, Auditing & Accountability Journal*, Vol. 30, No. 6, pp. 1399–1423.
- Harvey, D. (2003), *The New Imperialism*, Oxford University Press, Oxford and New York.
- Harvey, D. (2005), *A Brief History of Neoliberalism*, Oxford University Press, Oxford and New York.
- Hayek, F. (1944), *The Road to Serfdom*, Routledge, London and New York.
- Hazgui, M. and Gendron, Y. (2015), "Blurred roles and elusive boundaries: On contemporary forms of oversight surrounding professional work", *Accounting, Auditing & Accountability Journal*, Vol. 28, No. 8, pp. 1234–1262.
- Herb, M. (2016), The Origins of Kuwait's National Assembly, *LSE Kuwait Programme Paper Series 39*, available at: <http://eprints.lse.ac.uk/65693/> (accessed 29 October 2019).
- Hijazi, A. (1964), "Kuwait : Development from a Semitribal, Semicolonial Society to Democracy and Sovereignty", *The American Journal of Comparative Law*, Vol. 13, No. 3, pp. 428–438.
- Hopper, T. and Powell, A. (1985), "Making sense of research into the organizational and social aspects of management accounting: A review of its underlying assumptions", *Journal of Management Studies*, Vol. 22, No. 5, pp. 429–465.
- Hoyle, J. (1978), "Mandatory auditor rotation: The arguments and an alternative", *Journal of Accountancy*, New York, May, pp. 69–78.
- Humphrey, C., Loft, A. and Woods, M. (2009), "The global audit profession and the international financial architecture: Understanding regulatory relationships at a time of financial crisis", *Accounting, Organizations and Society*, Vol. 34, No. 6–7, pp. 810–825.
- IFAC. (2015), "Handbook of the Code of Ethics for Professional Accountants", *International Federation of Accountants*, New York, available at: <https://www.ethicsboard.org/publications/2015-handbook-code-ethics-professional-accountants-26> (accessed 1 April 2016).
- IMF. (2004a), "Kuwait: Financial System Stability Assessment, including Reports on the Observance of Standards and Codes on the following topics: Banking Supervision, Securities Regulation, Anti-Money Laundering and Combating the Financing of Terrorism", *International Monetary Fund*, Washington, D.C., available at: <https://www.imf.org/external/np/fsap/fsap.aspx?CountryName=Kuwait> (accessed 3 June 2017).

- IMF. (2004b), "Kuwait: Financial Sector Assessment Program—Detailed Assessments of Observance of Standards and Codes—International Organization of Securities Commission (IOSCO)—Objectives and Principles of Securities Regulation", *International Monetary Fund*, Washington, D.C., available at: <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Kuwait-Financial-Sector-Assessment-Program-Detailed-Assessments-of-Observance-of-Standards-17829> (accessed 5 June 2017).
- IMF. (2010), "Kuwait: Financial System Stability Assessment—Update", *International Monetary Fund*, Washington, D.C., available at: <https://www.imf.org/external/np/fsap/fsap.aspx?CountryName=Kuwait> (accessed 11 October 2017).
- IMF. (2018), "Reports on the Observance of Standards and Codes (ROSCs)", *International Monetary Fund*, available at: <https://www.imf.org/external/NP/rosc/rosc.aspx?sortBy=CountryName&sortVal=K> (accessed 24 January 2019).
- IMF. (2019), "Kuwait: Financial system stability assessment", *International Monetary Fund*, Washington, D.C., available at: <https://www.imf.org/en/Publications/CR/Issues/2019/04/02/Kuwait-Financial-System-Stability-Assessment-46730> (accessed 17 July 2019).
- IIBRD. (1961), "The Economic Development of Kuwait", *International Bank for Reconstruction and Development*, Washington, D.C., available at: <http://documents.worldbank.org/curated/en/692071468266415618/Kuwait-The-economic-development> (accessed 30 March 2017).
- International Business Publications. (2012), *Kuwait Taxation Laws and Regulations Handbook: Volume 1 Strategic Information and Basic Laws*, Washington, D.C., available at: <https://books.google.co.uk/books?id=ERwaUygutU4C&pg=PA79&lpg=PA79&dq=kuwait+tax+1951&source=bl&ots=UaFc64kPTV&sig=ACfU3U2BjtvbCuRZ8RvYIkJTr56sizcUWA&hl=en&sa=X&ved=2ahUKEwjsx8Su05XqAhW4SRUIHVqLBtIQ6AEwBHoECAMQAQ#v=onepage&q&f=false> (accessed 14 January 2019).
- IOSCO. (2002a), "Principles for Auditor Oversight", *International Organization of Securities Commissions*, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD134.pdf> (accessed 1 February 2018).
- IOSCO. (2002b), "Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence", *International Organization of Securities Commissions*, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD133.pdf> (accessed 1 February 2018).
- Jeppesen, K. and Loft, A. (2011), "Regulating Audit in Europe : The Case of the Implementation of the EU Eighth Directive in Denmark 1984-2006", *European Accounting Review*, Vol. 20, No. 2, pp. 321–354.



- Kourula, A., Moon, J., Salles-Djelic, M.-L. and Wickert, C. (2019), "New Roles of Government in the Governance of Business Conduct: Implications for Management and Organizational Research", *Organization Studies*, Vol. 40, No. 8, pp. 1101–1123.
- KCCI. (2014), "The chamber memorandum on the capital market authority decision to the issuance of corporate governance for its companies", *Kuwait Chamber of Commerce and Industry*, available at: [http://www.kuwaitchamber.org.kw/echamber/website/index.jsp?pageID=ws\\_cmsmenu.jsp&fromPublic=yes&language=ar&rootMenu=549&menuID=549](http://www.kuwaitchamber.org.kw/echamber/website/index.jsp?pageID=ws_cmsmenu.jsp&fromPublic=yes&language=ar&rootMenu=549&menuID=549) (accessed 11 October 2016).
- Kuwait News Agency. (2004), "Kuwait Stock Exchange 20 years of commemorate journey", available at: <https://www.kuna.net.kw/ArticlePrintPage.aspx?id=1448027#> (accessed 4 February 2019).
- Loft, A., Humphrey, C. and Turley, S. (2006a), "In pursuit of global regulation: Changing governance and accountability structures at the International Federation of Accountants (IFAC)", *Accounting, Auditing & Accountability Journal*, Vol. 19, No. 3, pp. 428–451.
- Loft, A., Humphrey, C. and Turley, S. (2006b), "In pursuit of global regulation: Changing governance and accountability structures at the International Federation of Accountants (IFAC)", *Accounting, Auditing & Accountability Journal*, Vol. 19, No. 3, pp. 428–451.
- Longva, A. (2006), "Nationalism in Pre-Modern Guise: The Discourse on Hadhar and Badu in Kuwait", *International Journal of Middle East Studies*, Vol. 38, No. 2, pp. 171–187.
- Lyon, A. (2017), "Epistemology, Ontology, and Axiology in Research", *YouTube Video*, Organizational Communication Channel, available at: <https://www.youtube.com/watch?v=AhdZOsBps5o> (accessed 22 June 2019).
- MacDonald, L. and Richardson, A. (2004), "Identity, appropriateness and the construction of regulatory space: The formation of the Public Accountant's Council of Ontario", *Accounting, Organizations and Society*, Vol. 29, No. 5–6, pp. 489–524.
- Malsch, B. and Gendron, Y. (2011), "Reining in auditors: On the dynamics of power surrounding an 'innovation' in the regulatory space", *Accounting, Organizations and Society*, Vol. 36, No. 7, pp. 456–476.
- Malsch, B., Gendron, Y. and Grazzini, F. (2011), "Investigating interdisciplinary translations: The influence of Pierre Bourdieu on accounting literature", *Accounting, Auditing & Accountability Journal*, Vol. 24, No. 2, pp. 194–228.
- McMillan, K. (2004), "Trust and the virtues: A solution to the accounting scandals?", *Critical Perspectives on Accounting*, Vol. 15, No. 6–7, pp. 943–953.

- Mehrpouya, A. (2015), "Instituting a transnational accountability regime: The case of Sovereign Wealth Funds and 'GAPP'", *Accounting, Organizations and Society*, Vol. 44, pp. 15–36.
- Mehrpouya, A. and Salles-Djelic, M.-L. (2019), "Seeing like the market; exploring the mutual rise of transparency and accounting in transnational economic and market governance", *Accounting, Organizations and Society*, Vol. 76, pp. 12–31.
- Mehrpouya, A. and Samiolo, R. (2016), "Performance measurement in global governance: Ranking and the politics of variability", *Accounting, Organizations and Society*, Vol. 55, pp. 12–31.
- Mennicken, A. (2008), "Connecting worlds: The translation of international auditing standards into post-Soviet audit practice", *Accounting, Organizations and Society*, Vol. 33, No. 4–5, pp. 384–414.
- Mennicken, A. (2010), "From inspection to auditing: Audit and markets as linked ecologies", *Accounting, Organizations and Society*, Vol. 35, No. 3, pp. 334–359.
- Mihret, D., Alshareef, M. and Bazhair, A. (2017), "Accounting professionalization and the state: The case of Saudi Arabia", *Critical Perspectives on Accounting*, Vol. 45, pp. 29–47.
- Mihret, D., Mirshekary, S. and Yafian, A. (2019), "Accounting professionalization, the state, and transnational capitalism: The case of Iran", *Accounting, Organizations and Society*, In Press.
- Miller, P. (1990), "On the Interrelations between Accounting and the State", *Accounting, Organizations and Society*, Vol. 15, No. 4, pp. 315–338.
- Moore, D., Tetlock, P., Tanlu, L. and Bazerman, M. (2006), "Conflicts of Interest and the Case of Auditor Independence: Moral Seduction and Strategic Issue Cycling", *Academy of Management Review*, Vol. 31, No. 1, pp. 10–29.
- Morgan, G. and Smircich, L. (1980), "The Case of Qualitative Research", *Academy of Management Review*, Vol. 5, No. 4, pp. 491–500.
- Mulla, A. (1997), "Taxation system in Kuwait", *Kuwait National Assembly*, available at: <http://www.kna.kw/research/elnizam1/01.pdf> (accessed 10 September 2019)
- National Bank of Kuwait. (2018), "Economic Uptade - Kuwait: Value of contracts declined in 2017; sectors performance varied", available at: <https://www.nbk.com/nbk-group/news-and-insights/economic-reports.html> (accessed 29 January 2019).
- Power, M. (1997), *The Audit Society: Rituals and Verification*, Oxford University Press, Oxford.
- Power, M. (2009), "Reviewed Work: Bankrupt: Global Lawmaking and Systemic Financial Crisis by Terence C. Halliday and Bruce G. Carruthers", *The Canadian Journal of Sociology*, Vol. 34, No. 4, pp. 1124–1127.

- Power, M. and Gendron, Y. (2015), "Qualitative Research in Auditing: A Methodological Roadmap", *Auditing: A Journal of Practice and Theory*, Vol. 34, No. 2, pp. 147–165.
- Pritchett, L. and Woolcock, M. (2004), "Solutions when the solution is the problem: Arraying the disarray in development", *World Development*, Vol. 32, No. 2, pp. 191–212.
- Pritchett, L., Woolcock, M. and Andrews, M. (2013), "Looking Like a State: Techniques of Persistent Failure in State Capability for Implementation", *Journal of Development Studies*, Vol. 49, No. 1, pp. 1–18.
- Puxty, A., Willmott, H., Cooper, D. and Lowe, T. (1987), "Modes of regulation in advanced capitalism: Locating Accountancy in four countries", *Accounting, Organizations and Society*, Vol. 12, No. 3, pp. 273–291.
- Radcliffe, V., Cooper, D. and Robson, K. (1994), "The management of professional enterprises and regulatory change: British accountancy and the financial services Act, 1986", *Accounting, Organizations and Society*, Vol. 19, No. 7, pp. 601–628.
- Regmi, K., Naidoo, J. and Pilkington, P. (2010), "Understanding the Processes of Translation and Transliteration in Qualitative Research", *International Journal of Qualitative Methods*, Vol. 9, No. 1, pp. 16–26.
- Reuters. (2019), "MIDEAST DEBT-Kuwait, Oman wealth funds being depleted to finance deficits", available at: <https://www.reuters.com/article/mideast-debt-kuwait-oman/mideast-debt-kuwait-oman-wealth-funds-being-depleted-to-finance-deficits-idUSL8N23O1D7> (accessed 11 October 2019).
- Richardson, A. (1989), "Corporatism and interprofessional hegemony: A study of regulation and internal social order", *Accounting, Organizations and Society*, Vol. 14, No. 5/6, pp. 415–431.
- Robbins, D. (2002), "Sociology and Philosophy in the Work of Pierre Bourdieu, 1965-75", *Journal of Classical Sociology*, Vol. 2, No. 3, pp. 299–328.
- Robson, K., Willmott, H., Cooper, D. and Puxty, T. (1994), "The ideology of professional regulation and the markets for accounting labour: three episodes in the recent history of the U.K. accountancy profession", *Accounting, Organization and Society*, Vol. 19, No. 6, pp. 527–553.
- Ryan, B., Scapens, R. and Theobald, M. (2002), *Research Method and Methodology in Finance and Accounting*, 2nd ed., Thomson, London.
- Ryan, G. and Bernard, H.R. (2003), "Techniques to Identify Themes", *Field Methods*, Vol. 15, No. 1, pp. 85–109.
- Samsonova-Taddei, A. and Humphrey, C. (2014), "Transnationalism and the transforming roles of professional accountancy bodies: Towards a research agenda", *Accounting, Auditing and Accountability Journal*, Vol. 27, No. 6, pp. 903–932.

- Samsonova-Taddei, A. and Humphrey, C. (2015), "Risk and the construction of a European audit policy agenda: The case of auditor liability", *Accounting, Organizations and Society*, Vol. 41, pp. 55–72.
- Samsonova-Taddei, A. and Siddiqui, J. (2016), "Regulation and the Promotion of Audit Ethics: Analysis of the Content of the EU's Policy", *Journal of Business Ethics*, Vol. 139, No. 1, pp. 183–195.
- Samsonova, A. (2009), "Local sites of globalisation: A look at the development of a legislative framework for auditing in Russia", *Critical Perspectives on Accounting*, Vol. 20, No. 4, pp. 528–552.
- Saunders, M., Lewis, P. and Thornhill, A. (2009), *Research Methods for Business Students*, 5th ed., Pearson Education Limited, England.
- Shaffer, G. (2011), "Transnational recursivity theory: a review essay of Halliday & Carruthers' Bankrupt", *Socio-Economic Review*, Vol. 9, pp. 371–376.
- Sikka, P. (2002), "The Politics of Restructuring the Standard Setting Bodies: the Case of the UK's Auditing Practices Board", *Accounting Forum*, Vol. 26, No. 2, pp. 97–125.
- Sikka, P. (2008), "Globalization and its discontents: Accounting firms buy limited liability partnership legislation in Jersey", *Accounting, Auditing & Accountability Journal*, Vol. 21, No. 3, pp. 398–426.
- Sikka, P. (2009), "Financial crisis and the silence of the auditors", *Accounting, Organizations and Society*, Vol. 34, No. 6–7, pp. 868–873.
- Sikka, P. (2015), "The corrosive effects of neoliberalism on the UK financial crises and auditing practices: A dead-end for reforms", *Accounting Forum*, Vol. 39, No. 1, pp. 1–18.
- Sikka, P., Haslam, C., Cooper, C., Haslam, J., Christensen, J., Driver, D., Hadden, T., Ireland, P., Parker, M., Pearson, G., Pettifor, G., Picciotto, S., Veldman, J. and Willmott, H. (2018), *Reforming the Auditing Industry*, available at: [https://www.researchgate.net/publication/330983629\\_REFORMING\\_THE\\_AUDITING\\_INDUSTRY](https://www.researchgate.net/publication/330983629_REFORMING_THE_AUDITING_INDUSTRY) (accessed 20 May 2019).
- Sikka, P., Puxty, A., Willmott, H. and Cooper, C. (1998), "the Impossibility of Eliminating the expectations gap: some theory and evidence", *Critical Perspectives on Accounting*, Vol. 9, pp. 299–330.
- Sikka, P. and Willmott, H. (1995), "Illuminating the State-Profession Relationship: Accountants acting as Department of trade and Industry Investigators", *Critical Perspectives on Accounting*, Vol. 6, pp. 341–369.
- Silverstein, P. and Goodman, J. (2009), "Introduction: Bourdieu in Algeria", in Goodman, J. and Silverstein, P. (Eds.), *Bourdieu in Algeria: Colonial Politics, Ethnographic Practices, Theoretical Developments*, University of Nebraska Press, Lincoln and London, pp. 1–62.

- Spence, C. and Carter, C. (2014), "An exploration of the professional habitus in the Big 4 accounting firms", *Work, Employment & Society*, Vol. 28, No. 6, pp. 946–962.
- Spence, C., Carter, C., Belal, A., Husillos, J., Dambrin, C. and Archel, P. (2016), "Tracking habitus across a transnational professional field", *Work, Employment & Society*, Vol. 30, No. 1, pp. 3–20.
- Spence, C., Dambrin, C., Carter, C., Husillos, J. and Archel, P. (2015), "Global ends, local means: Cross-national homogeneity in professional service firms", *Human Relations*, Vol. 68, No. 5, pp. 765–788.
- Spence, C., Ezzamel, M. and Zhu, J. (2019), "Thinking like the State: Doxa and Symbolic Power in the Accounting Field in China", *Manuscript Submitted for Publication*.
- Spence, C., Zhu, J., Endo, T. and Matsubara, S. (2017), "Money, honour and duty: Global professional service firms in comparative perspective", *Accounting, Organizations and Society*, Vol. 62, pp. 82–97.
- Stringfellow, L., McMeeking, K. and Maclean, M. (2015), "From four to zero? The social mechanisms of symbolic domination in the UK accounting field", *Critical Perspectives on Accounting*, Vol. 27, pp. 86–100.
- Suddaby, R. (2014), "Editor's comments: Why theory?", *Academy of Management Review*, Vol. 39, No. 4, pp. 407–411.
- Suddaby, R., Cooper, D. and Greenwood, R. (2007), "Transnational regulation of professional services: Governance dynamics of field level organizational change", *Accounting, Organizations and Society*, Vol. 32, pp. 333–362.
- Swartz, D. (2008), "Bringing Bourdieu's master concepts into organizational analysis", *Theory and Society*, Vol. 37, No. 1, pp. 45–52.
- Swartz, D. (2013), *Symbolic Power, Politics, and Intellectuals: The Political Sociology of Pierre Bourdieu*, The University of Chicago Press, Chicago and London.
- SWF Institute. (2018), "Top 83 Largest Sovereign Wealth Fund Rankings by Total Assets", *Sovereign Wealth Fund Institute*, available at: <https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund> (accessed 14 October 2019).
- The Ministry of Finance. (2019), "Kuwait closing accounts", Kuwait, available at: <https://mof.gov.kw/MofBudget/MofBudgetDetail.aspx> (accessed 11 October 2019).
- The Public Authority for Civil Information. (2019), "Statistical Indicators (30 June 2019)", available at: <https://www.paci.gov.kw/stat/Indicator.aspx> (accessed 10 October 2019).
- The US Central Intelligence Agency. (2018), "The World Factbook (Kuwait)", available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/ku.html> (accessed 14 January 2019).



- The World Bank. (n.d.). "Reports on the Observance of Standards and Codes", available at: <http://www.worldbank.org/en/programs/rosc> (accessed 24 January 2019).
- Trading Economics. (2012), "Kuwait - Market capitalization of listed companies", available at: <https://tradingeconomics.com/kuwait/market-capitalization-of-listed-companies-us-dollar-wb-data.html?embed> (accessed 29 January 2019).
- Uche, C. (2002), "Professional accounting development in Nigeria : threats from the inside and outside", *Accounting, Organization and Society*, Vol. 27, pp. 471–496.
- Wacquant, L. (1993), "From Ruling Class to Field of Power: An Interview with Pierre Bourdieu on La noblesse d'Etat", *Theory, Culture & Society*, Vol. 10, pp. 19–44.
- Wade, R. (2007), "A New Global Financial Architecture?", *New Left Review*, pp. 113–129.
- Weber, M. (1930), *The Protestant Ethic and the Spirit of Capitalism*, 1st ed., Routledge, London and New York.
- Willmott, H. (1986), "Organising the profession: a theoretical and historical examination of the development of the major accountancy bodies in the U.K.", *Accounting Organizations and Society*, Vol. 11, No. 6, pp. 555–580.
- Willmott, H., Puxty, A., Robson, K., Cooper, D. and Lowe, E. (1992), "Regulation of Accountancy and Accountants: A Comparative Analysis of Accounting for Research and Development in Four Advanced Capitalist Countries", *Accounting, Auditing & Accountability Journal*, Vol. 5, No. 2, pp. 32–56.
- Windsor, C. and Warming-Rasmussen, B. (2009), "The rise of regulatory capitalism and the decline of auditor independence: A critical and experimental examination of auditors' conflicts of interests", *Critical Perspectives on Accounting*, Vol. 20, No. 2, pp. 267–288.
- WTO. (n.d.). "The State of Kuwait and the WTO", *World Trade Organization*, available at: [https://www.wto.org/english/thewto\\_e/countries\\_e/kuwait\\_e.htm](https://www.wto.org/english/thewto_e/countries_e/kuwait_e.htm) (accessed 28 January 2019).
- Xu, Y. and Xu, X. (2008), "Social actors, cultural capital, and the state: The standardization of bank accounting classification and terminology in early twentieth-century China", *Accounting, Organizations and Society*, Vol. 33, No. 1, pp. 73–102.
- Yapa, P. (1999), "Professional accounting environment in Brunei Darussalam", *Accounting, Auditing & Accountability Journal*, Vol. 12, No. 3, pp. 328–339.

- Yapa, P. (2006), "Cross-border competition and the professionalization of accounting: the case of Sri Lanka", *Accounting History*, Vol. 11, No. 4, pp. 447–473.
- Yapa, P., Jalathge, S. and Siriwardhane, P. (2017), "The professionalisation of auditing in less developed countries: the case of Sri Lanka", *Managerial Auditing Journal*, Vol. 32, No. 4–5, pp. 500–523.
- Yee, H. (2012), "Analyzing the state-accounting profession dynamic: Some insights from the professionalization experience in China", *Accounting, Organizations and Society*, Vol. 37, No. 6, pp. 426–444.
- Yin, R. (2014), *Case Study Research: Design and Methods*, 5th ed., Sage Publications Inc., California, London, New Delhi, and Singapore.
- Zeff, S. (2003), "How the U.S. accounting profession got where it is today: Part I", *Accounting Horizons*, Vol. 17 No. 3, pp. 189–205.

## Appendices

### Appendix 1: Preliminary interview queries

General theme	Preliminary questions
Corporate governance codes (CGCs)	Do you think the implementation of CGCs are important? Why?
	How does the implementation of CGCs benefit external auditors?
	How does implementing CGCs affect the audit market?
Audit market	How do you define the relationship between audit firms?
	What type of conflict may occur between audit firms?
	What do you think about the practices of non-Big 4 firms?
	What are the sources of income for large and small audit firms?
Audit regulations	What do you think about the laws and regulations of external audit in Kuwait? What are the issues that need to be improved?
	How do you define the relationship between large audit firms and state financial regulators?
	Does the accountancy association have a role in regulating corporate audit? How and why?
	Why did regulators stop joint audit requirements?
	Why do auditors not present “letters of representation” to the shareholders in the general assembly meetings? <sup>76</sup>
Audit independence	What is audit independence?
	How, internally, do audit firms measure and promote auditor independence?
	Does providing advisory services affect auditor independence? How and why?
	Do you think rotation is the right solution to promoting independence? How and why?
	Is it true that banks are trying to stop/resist the implementation of audit rotation? How and why?

<sup>76</sup> I understand the “letter of representation” as an official letter signed by an auditee (legal representative) at the end of the engagement to show “good intention” in critical issues raised by external auditors. This letter, arguably, has a substantial legal power that protects auditors in case of conflicts. To my knowledge, although this issue is beyond the aim of this research, no one spoke about this critical process and letter, which I think requires careful future consideration.





## Appendix 2: Interview protocol

General theme 1	Q	All interviewees
Dynamic of audit field (operation of audit market)	1	What are the differences within the Big 4 and large non-Big 4 firms?
	2	How does a firm become a famous audit firm in Kuwait?
	3	Who do you think will dominate the audit field in Kuwait in ten years? Why?
	4	How could your audit firm control/influence the audit market in Kuwait? Is brand name important? Why?
	5	Why the emphasis on the US-CPA by audit firms and regulators? Does it differ from the local qualification? How?
General theme 2	Q	All interviewees
The relationship between financial regulators and audit firms	6	<b>Given the repeated financial crises around the world</b> , why do you think there has been no major change to audit law since 1981?
	7	What are the audit regulations that need to be changed? How could change happen?
	8	Do you think it is important for the audit profession to be regulated by the government? Why is there no powerful accountancy body with independent authority? Why does the Ministry of Commerce indirectly empower the accounting association and companies to participate in regulating the audit profession?
	9	Why does each financial regulator have different regulatory requirements (e.g., registration, rotation, advisory services, disciplinary proceedings)? Why do some regulators (not all) not regulate audit firms as a single entity?
	10	Why does each financial regulator require audit firms to register with them? Do you think there are tensions/conflicts between regulators that regulate audit? Why and how?
	11	Who has a big say with regard to audit regulations in Kuwait? Why?
	12	Large audit firms are auditing financial regulators (CBK and CMA) and at the same time, these financial regulators are regulating corporate audit. What are the implications of this interaction on the audit field in Kuwait?

General theme 3	Q	International audit firms	<u>Regulator 1*</u>	<u>Regulator 2*</u>	<u>Regulator 3*</u>	<u>Accountancy association*</u>
Modernising audit/financial systems	13	<b>In the West, after many years of implementing compulsory partner rotation, recently, there are higher demands for firms' rotation as a superior way to enhance audit independence and quality</b>				
		Do you think it is important to implement rotation at the firm level in Kuwait? Why? How will it affect the audit market and profession? Who might resist implementation?	How will Regulator 1's signatory requirement affect the work of large audit firms? Do you think it is important to implement rotation at the firm level in Kuwait? Why? How it will affect the audit market and profession? How would you implement it? Who will resist implementation? How can resistance be avoided?	Do you think it is important to implement rotation at the firm level in Kuwait? Why it is not implemented? How it will affect the audit market and profession? Who will resist implementation? How can resistance be avoided?	How will Regulator 3's rotation requirement affect the work of large audit firms? Do you think it is important to implement rotation at the firm level in Kuwait? Why? How it will affect the audit market and profession? Who will resist implementation? How can resistance be avoided?	Do you think it is important to implement rotation at the firm level in Kuwait? Why? How it will affect the audit market and profession? Who might resist implementation?

General theme 3	14	<p><b>The majority of capital markets around the world are adopting US-SOX prohibition of non-audit services (NAS) at the firm level. On the adapted prohibition of NAS in Kuwait (the Ministry of Commerce prohibit non-accounting and some accounting services at signatory level, CBK permits non-accounting services and CMA prohibits NAS at signatory level).</b></p>				
Modernising audit/financial systems		<p>Do you think Kuwait should follow the US prohibition of NAS's at the firm level in Kuwait? Why? How could it affect the audit market?</p>	<p>Do you think Kuwait should follow the US prohibition of NAS at the firm level in Kuwait? Why? How could it affect the audit market? How will Regulator 1's prohibition on authorised signatory affect audit work?</p>	<p>Do you think Kuwait should follow the US prohibition of NAS at the firm level in Kuwait? Why? How could it affect the audit market? Why are audit firms allowed to provide most types of accounting NAS to their clients?</p>	<p>Do you think Kuwait should follow the US prohibition of NAS at the firm level in Kuwait? Why? How could it affect the audit market? Why are audit firms allowed to provide non-accounting NAS to their clients?</p>	<p>Do you think Kuwait should follow the US prohibition of NAS at the firm level in Kuwait? Why? How could it affect the audit market? What do you think about the different prohibitions of NAS by the different financial regulators in Kuwait?</p>

General theme 3	One of the main purposes of audit firms' registration with the capital market regulator(s) is so they are subject to the regulator inspection programme on their audit quality.					
Modernising audit/financial systems	15	Do you think it is important for regulators to perform inspections of large firms' audit quality? Do you think the outcome of inspections, such as disclosure disciplinary actions and inspection reports, is something that could affect the audit market? Why?	Do you think it is important for regulators to perform inspections of large firms' audit quality? Why is Regulator 1 not performing inspections on audit firms' financial audit work? Do you think the outcome of inspections, such as disclosure of disciplinary actions and inspection reports, is something that could affect the audit market? Why?	Do you think it is important for regulators to perform inspections of large firms' audit quality? Why are Regulators 1, 2, and 3 not performing inspections? Do you think the outcome of inspections, such as disclosure of disciplinary actions and inspection reports, is something that could affect the audit market? Why?	Do you think it is important for regulators to perform inspections of large firms' audit quality? Why does Regulator 3 not participate/perform inspections? Do you think the outcome of inspections, such as disclosed disciplinary actions and disclosure of inspection reports, is something that could affect the audit market? Why?	Do you think it is important for regulators to perform inspections of large firms' audit quality? Why are financial regulators not performing inspections? Do you think the KAAA proposal for the Ministry of Commerce to be responsible for inspections will be effective for large audit firms? Do you think the outcome of inspections, such as disclosure of disciplinary actions and inspection reports is something that could affect the audit market? Why?

<b>General theme 3</b> Modernising audit/financial systems	16	<b>In Bahrain since 2011, corporate governance regulation requires companies to disclose audit and non-audit fees.</b> Do you think it is a good idea to disclose such fees? If, for example, a regulator wants to apply this disclosure requirement to all listed companies, how could they achieve this? How will it affect the audit market? Whose blessing is required?
<b>General theme 4</b>	<b>Q</b>	<b>All interviewees</b>
Localising Western systems	17	<b>Despite having a different business/legal culture from the West,</b> why do our financial regulators follow Western structures of audit regulation? (Registration, rotation, NAS, management responsibility of accounts) but NOT with regard to disclosure of audit operations (i.e., audited clients' NAS fees, engagement partners names, disciplinary actions, etc.)
	18	<b>Western research evidenced that IASB and IFAC are dominated by large corporations and Western Big 4 to advance their interests.</b> Do you think we need our own accounting and auditing standards? Or customised standards?

\*Some questions have been customised to be relevant to a specific field.



### Appendix 3: Provisions of audit laws prior to 1981

Law (6) of 1962 (22/4/1962)	Law (3) of 1965 (7/3/1965) Amendments to Law (6) of 1962
<p>Conditions for registration as a statutory auditor with the Ministry of Finance and Economy:</p> <ul style="list-style-type: none"> <li>- Obtaining a degree in commerce, economy, or finance equivalent to a university degree, conditional to covering accounting subjects</li> <li>- Membership in an accounting and auditing association approved by the Minister of Finance and Economy or three years of experience post-university degree in: <ul style="list-style-type: none"> <li>- Accounts audit in an audit firm</li> <li>- Accounting or auditing function in public or private companies</li> <li>- Accounting or auditing function in government agencies</li> <li>- Teaching accounting topics in a business college or high school</li> <li>- Practicing audit in an audit firm before the enactment of this law</li> </ul> </li> <li>- To be resident in Kuwait</li> <li>- Full civil and legal capacity (e.g., no convictions for honesty or integrity ... etc.)</li> <li>- No less than 25 years old</li> </ul>	<p>Changed membership in associations to requiring registration to “Kuwaitis”. Nonetheless, the Minister of Commerce can accept registering non-Kuwaitis for five years, “renewable”.</p> <p>Empowers the deputy Commerce Minister to deal with violation of this law by referring violators for prosecution, to police, or cancelling their registration.</p> <p>Shifting the responsibility of enforcing the audit practice law from the Ministry of Finance and Economy to the Ministry of Commerce.</p>

Prepared and translated by the researcher.

Arabic source: (Eastern Laws Network, 2017a, 2017b)





## **Appendix 4: English version of Kuwait Audit Law of 1981**

### **Decree Law No. (5) Of 1981 concerning the Practice of the Auditing Profession**

- Having reviewed the Amiri Decree issued on 4th Ramadan, 1396 H, corresponding to 29th August, 1976 to review the Constitution, and
- Amiri Decree issued on 14th Shawwal, 1400 H, corresponding to 24th August, 1980, and
- Article 16 of the Constitution, and
- Law No. (6) of 1962 concerning the practice of Auditing, amended by Law No. (3) of 1965, and
- Based on the presentation of the Minister of Commerce and Industry, and the approval of the Council of Ministers.

**We have issued the following law:**

#### **Chapter One Auditors' Register and Conditions and Procedures for Registration therein**

##### **Article (1)**

No person may be engaged in the practice of auditing unless enrolled in the register of auditors with the Ministry of Commerce and Industry.

##### **Article (2)**

Those who are registered in the auditors' register must fulfill the following conditions:

1. Be a natural person.
2. Hold a bachelor's degree in accounting from Kuwait University, or an equivalent university or higher institute considered as such by the Minister of Education. The auditor must also be a member of an association of accountants accredited by the Minister of Commerce and Industry had been issued.
3. Auditors of banks, insurance companies, and financial companies must have a minimum of seven years of experience after obtaining the academic qualification, while other auditors must have five years experience.

The above-mentioned years of experience should be in one of the following fields:

- a) Auditing accounts in a certified auditing office firm,
  - b) Practicing accounting or auditing accounts of companies, institutions, or public or private authorities.
  - c) Practicing accounting, or monitoring auditing at any Ministry.
4. Be a Kuwaiti national with a full civil capacity, and not less than 25 years old.
  5. Be a reputable person, and not sentenced to a felony, or a crime that violates honor and honesty, or be sentenced to disciplinary action for violation of the profession's honour, unless he has been rehabilitated, or if three years have elapsed since the date of his final conviction for the disciplinary offense.

6. Pass the auditorship exam, as determined by the Minister of Commerce and Industry with regard to the exam's materials, rules, procedures, place and timing.

#### Article (3)

All persons listed in the auditors' register with the Ministry of Commerce and Industry shall submit the documents proving that the registration's conditions as provided in the previous article have been fulfilled, except for the conditions stipulated in items 3, 4, and 6 of the previous Article. These documents must be submitted within a period not exceeding six months from the effective date hereof, to consider their registration in the mentioned register in accordance with the provisions of this Law; otherwise, this registration shall be considered as void.

#### Article (4)

Without prejudice to the provisions of Article 5 of this Law, if the audit firm consists of more than one auditor listed in the Register, one of them must be Kuwaiti and each of them shall sign the work done by them individually.

#### Article (5)

Non-Kuwaitis enrolled in the register of auditors shall be subject to a temporary registration of three years from the said date. A decree by the Minister of Commerce and Industry may renew this period once, for a period not exceeding two years.

#### Article (6)

The registration application shall be submitted to the Ministry of Commerce and Industry. It shall be presented to a committee formed under the chairmanship of the Undersecretary of the Ministry of Commerce and Industry or his representative, in addition to the membership of two specialists in the auditing profession nominated by the Kuwait Accountants Association. They shall be appointed by a decree from the Minister of Commerce and Industry for two renewable years.

A file containing the following information and documents shall be attached to the registration application:

- a) Applicant's name, surname, nationality, residence, and date of submitting the application.
- b) Certificates of academic qualification or their relevant official certificates, and the dates of obtaining them.
- c) Names of the associations of accountants to which he belongs, and the date of his membership.
- d) Birth certificate, or an official extract thereof.
- e) A certificate of previous experience.
- f) A certificate indicating a clear criminal record from relevant authorities in the State of Kuwait.

These data are recorded in a special record.

The Undersecretary of the Ministry of Commerce and Industry is entitled to request any other documents from the applicant.

#### Article (7)

The application shall be decided on within three months of the date of submission thereof. If the applicant is required to submit additional

information/documents, the said period shall then start from the date of submitting the required information or documents.

#### Article (8)

The applicant shall be notified of the issued decision of acceptance or rejection within 15 days as of the date of issuance through a letter with acknowledgement of receipt.

#### Article (9)

The auditor registered in the auditors' register shall swear an oath to perform his duties with honesty and honour, respect the principles of the profession, not to conceal the truth from those to whom it may concern, not to disclose the confidences of his clients or any information entrusted to him by virtue of his work, and to abide by the code of ethics governing the profession. The oath shall be taken before the Undersecretary of the Ministry of Commerce and Industry or whoever acts in his place. The auditor then signs a related document.

The auditor shall not proceed before swearing an oath.

#### Article (10)

The name of the auditor whose application is accepted--after swearing an oath--shall be recorded in the auditors' register, in accordance with the precedence of the approval of entry.

A statement of the period of registration and the rules and conditions for its renewal shall be issued by the Minister of Commerce and Industry.

### **Chapter Two**

### **Rights and Duties of an Auditor**

#### Article (11)

The auditor may obtain a certificate of registration in the auditors' register, showing his name, head office address, date of registration, and the registration number.

#### Article (12)

The registered auditor shall review the accounts of individuals, companies, and authorities in accordance with the technical accounting rules and the rules of honour of the profession, which are stated in a resolution issued by the Minister of Commerce and Industry and based on the recommendations of the Permanent Technical Committee for Establishing Accounting Rules. This committee is formed for such purpose by a resolution issued by the Minister of Commerce and Industry.

#### Article (13)

The auditor shall associate his name with his registration number in all the letters, certificates, budgets, and reports he signs.

#### Article (14)

The person enrolled in the register of auditors shall notify the Ministry of Commerce and Industry with his office address within 30 days of the date of registration, and within 15 days of the date of change in case of any changes therein.

#### Article (15)

Each auditor, appointed in such manner in a company, shall notify the Ministry of Commerce and Industry through a letter with acknowledgement of receipt within eight days of the date of his appointment.

#### Article (16)

The auditor shall designate a file for each company he audits, in which he keeps all the documents, copies and correspondence letters he releases to the company throughout the duration of his auditing.

The auditor shall list, in a record, all his work for each company, including the date of performing each work, time taken to complete each work, and the names of his assistants or experts whom he hired along with a description of what each one of them did.

The auditor--even after quitting his job--must keep these files and records for ten years as of the date of last entry.

#### Article (17)

The Undersecretary of the Ministry of Commerce and Industry may request the auditor to submit a report accompanied with supporting documents on the joint stock companies that he audits.

The Undersecretary is entitled to make remarks to the auditor concerning this report.

#### Article (18)

The auditor of a joint stock company is not entitled to be the chairman of the company's board of directors, a delegate member, a member of its board of directors, or an employee therein.

#### Article (19)

The auditor of the company must not be:

- a) A partner in the company, or performing any administrative work therein;
- b) A partner or an employee in any of those mentioned in Article(18) or in the preceding paragraph.
- c) A relative to the fourth degree of those entrusted with the company's management or accounts.

#### Article (20)

The auditor must not practice any other profession that includes a conflict of interest with auditing, particularly the following:

- a) Consultation services not relating to accounting.
- b) Promotion services for the establishment of companies.
- c) Maintaining accounts, and preparing closing accounts and balance sheets.
- d) Promoting his office, or seeking employment through breaching of the dignity of the profession.

### **Chapter Three Penalties**

#### Article (21)

The Undersecretary of the Ministry of Commerce and Industry may refer the auditor to the Disciplinary Committee if he is charged with violating the provisions of this law, or the disciplines of the profession, negligence, an act of dishonour and dishonesty, or breaching one of the conditions stipulated in this law.

If the Undersecretary of the Ministry finds out that the incident attributed to the auditor is a criminal offense, he shall refer the case to the Public Prosecution.

#### Article (22)

The disciplinary action shall be filed by a decree from the Undersecretary of the Ministry of Commerce and Industry to the committee referred to in Article (6), provided that it is held under the chairmanship of the Assistant Undersecretary of the Ministry of Commerce and Industry, who is appointed by a decree from the Minister of Commerce and Industry.

The Committee shall adjudicate in the disciplinary action after informing the accused auditor to attend at least 15 days prior to the scheduled date of the hearing. Notifying the auditor shall be through a letter with acknowledgement of receipt, indicating the charge against him, the date, and place of the hearing. If the accused does not attend, despite the announcement, he may be sentenced in absence.

#### Article (23)

The disciplinary penalties that may be inflicted upon the auditor are:

- a) Warning.
- b) Suspension from practicing the profession for a period not exceeding three years.
- c) Striking the name from the registry of auditors.

#### Article (24)

If the auditor is sentenced to the penalty of suspension from the profession, the chairman of the Disciplinary Committee shall notify the companies he works for.

If the company does not have another auditor and the date of the General Assembly meeting has not yet taken place, the Company may issue an order from the President of the Supreme Court to appoint an auditor from the registry instead of the suspended auditor.

The suspended auditor shall not re-commence the company's business after the end of the suspension period, until the General Assembly approves the company's accounts, unless the company has dispensed with his services.

#### Article (25)

The chairman of the Disciplinary Committee shall notify the relevant department in the Ministry of Commerce and Industry of any disciplinary decisions it issues.

The mentioned department shall record these decisions in a special register.

#### Article (26)

The auditor may not request to be re-registered in the Registry before five years from the date of his disciplinary dismissal.

The auditor shall, once suspended or his name is stricken, return to the company its documents.

#### Article (27)

The auditor may appeal against the decision of the Disciplinary Committee within one month from the date of issuance, if it was issued in his presence, or from the date of notification through a letter with acknowledgement of receipt, if it is issued in his absence.

The complaint shall be submitted to the Minister of Commerce and Industry in a letter with acknowledgment of receipt.

If the appeal is filed on time, the decision shall be suspended until it is finally arbitrated from the Disciplinary Appeal Committee.

#### Article (28)

The Disciplinary Appeal Committee shall be formed by a decree from the Minister of Commerce and Industry for one year, as follows:

1. A Counselor from the Supreme Court of Appeal appointed by the Minister of Justice as President.
2. Two members chosen by the Minister of Commerce and Industry, provided that they are not members in the Disciplinary Committee that issued the decision on which the complaint was filed.

#### Article (29)

The Disciplinary Appeal Committee may support, reduce, or cancel the sentence.

#### Article (30)

The final decision of the Disciplinary Committee shall be published in the Official Gazette.

#### Article (31)

The auditor may not be punished for any offense after five years has elapsed.

#### Article (32)

Without prejudice to any more severe penalty stipulated by another law, a penalty of not less than one year's imprisonment and/or a fine not exceeding 1,000 dinars shall be imposed on the following:

- a) Any person who has been engaged in auditing without his name being registered in the registry of auditors.
  - b) Any person who exercised auditing after suspension from practicing the profession or being stricken from the registry.
  - c) Any person who is not listed in the registry or whose name is stricken who uses bulletins that may mislead the public that he has the right to practice the profession of auditing.
  - d) Any person who obtains a registration in the registry of auditors by giving incorrect data or by submitting certificates that are not in conformity with reality.
- In all cases, the court shall order the deletion of the name from the registry and closure of the firm. It shall order the publication of the sentence three times in the Official Gazette at the expense of the sentenced person.

The penalty shall be doubled if the felony is repeated within five years from the date of the previous sentence.

#### Article (33)

Every person who has been required to testify before the Disciplinary Committee and has declined without an acceptable excuse shall be sentenced to a fine not exceeding 100 dinars.

#### Article (34)

The Undersecretary of Commerce and Industry is entitled to issue a decree to temporarily suspend the auditor from practicing the profession, once a criminal action has been instituted upon him in relation to auditing or the conditions of practicing it, until the action is finally adjudicated.

## **Chapter Four**

### **Final Provisions**

#### **Article (35)**

A fee of 100 dinars shall be paid upon submission of the application for registration in the register. This fee is not refundable in any case.

#### **Article (36)**

The provisions of this law shall not apply to auditors working in the government and public institutions and authorities.

#### **Article (37)**

The Minister of Commerce and Industry shall issue the necessary resolutions to implement this Law.

#### **Article (38)**

Law No. (6) of 1962 concerning the practice of Auditing profession shall be repealed.

#### **Article (39)**

This law shall be implemented by the Ministers each in the area of his concern and shall be effective on the date of publication in the Official Gazette.

**Amir of the State of Kuwait**  
**Jaber Al-Ahmad**

**Prime Minister**  
**Saad Al-Abdullah Al-Sabah**

**Minister of Trade and Industry**  
**Abdul Wahab Yousef Al-Nafisi**

Issued at the Seif Palace on: 11th Rabi' al-awwal, 1401 H Corresponding to:  
17th January, 1981

English source: (CBK, n.d., pp. 1-12)





## Appendix 5: Analytical Map of the findings

Observations	Sub-themes	Overarching themes	Research Question
<ul style="list-style-type: none"> <li>- Limited competent firms to audit banks</li> <li>- The support of banks to resist rotation</li> <li>- Shifting the regulations of investment companies to the new regulator (CBK became focused on banks, CMA extended its authority)</li> <li>- CBK requirements for banking audit do not “directly” contradict MoC laws</li> <li>- CBK ignores the new regulator demands</li> </ul>	CBK symbolic status and vision		How did the newly created regulator (CMA) take a leading regulatory position within the long-established regulators (the Ministry of Commerce and CBK)?
<ul style="list-style-type: none"> <li>- Used auditors to back its leading regulatory position</li> <li>- Arguments that CMA contradicts the audit law</li> <li>- Ministry of Commerce has governed regulatory practices longer</li> <li>- Unconstitutional requirements</li> </ul>	Resistance strategies of the Ministry of Commerce	Tension and disputes between new and old regulators	
<ul style="list-style-type: none"> <li>- New regulator claims registration power</li> <li>- Required registered auditors to pay periodic fees (legitimises CMA activities)</li> <li>- Fines from disciplinary proceedings (gave CMA superior regulatory power)</li> <li>- Superiority practices with other regulators</li> <li>- Demands to amend various laws to be congruent with practices of CMA</li> <li>- Shifting the regulations of investment companies to the new regulator (extended CMA authority)</li> </ul>	New regulator attempts to marginalise the authority of other state regulators		
<ul style="list-style-type: none"> <li>- Fight over registration power</li> <li>- Required registered auditors to pay periodic fees (legitimises CMA activities)</li> <li>- Shifting the regulations of investment companies to the new regulator (extended CMA authority)</li> <li>- Attempts to take over banking audit from CBK</li> </ul>	Accumulation of authorities		

<ul style="list-style-type: none"> <li>- Pressuring banks to accept CMA audit regulations</li> <li>- Hierarchy of registration (superiority practices between regulators, classifications within audit firms)</li> </ul>		CMA strategies to dominate regulations space	
<ul style="list-style-type: none"> <li>- Attractive pay scale</li> <li>- Attracting CBK staff (weakening CBK cultural power)</li> <li>- Timing of establishing CMA</li> <li>- CMA centralises recruitment decisions</li> <li>- Focus on recruiting expert Kuwaitis</li> </ul>	Recruitment of Kuwaiti specialised staff		
<ul style="list-style-type: none"> <li>- CMA pressures to amend existing laws</li> <li>- Superiority practices between regulators (having the final decision on fit and proper)</li> <li>- Hierarchy of registration (bureaucratic power argued to be with the newest institution)</li> </ul>	Superiority practices		
<ul style="list-style-type: none"> <li>- Imposing compulsory best practices corporate governance</li> <li>- Companies resisted associated costs and independence requirements</li> <li>- CMA pressure to amend existing laws</li> <li>- Intervention of Chamber of Commerce</li> </ul>	Conflict with elite social group (the merchants)		
<ul style="list-style-type: none"> <li>- Appointment of autocratic leadership</li> <li>- Prosecuting CBK governor</li> <li>- Message to opponents on seriousness of change</li> <li>- Balancing interests to pursue integration agenda</li> </ul>	Changing the new regulator's senior officials		











Observation	Sub-themes	Overarching themes	Research question
<ul style="list-style-type: none"> <li>- Limiting number of clients per audit manager</li> <li>- Kuwaitisation (few support, majority resist)</li> <li>- Firms do not legally exist (majority support, few resist)</li> <li>- Banks and CBK resisted firm rotation</li> </ul>	Costly and impractical registration requirements	Conflicts between the new regulator and the audit field	How did the audit field respond to the new regulator's initiative to implement modern changes to

<ul style="list-style-type: none"> <li>- Design of audit regulations taken away from auditors</li> <li>- Contradiction with existing laws</li> <li>- Using accountancy body to represent collective lobby</li> <li>- Refusing to register with the new regulator</li> <li>- Some used collective power to advance their private interests</li> <li>- Collective proposal on alternative solutions</li> </ul>	Resisting audit regulation reform		audit regulations?
Observation	Sub-themes	Overarching themes	Research question
<ul style="list-style-type: none"> <li>- Collective proposal on alternative solutions</li> <li>- Firms do not legally exist</li> <li>- Changing the logic of regulations from firm based to individuals</li> <li>- Changing rotation from firm based to individual based</li> <li>- Reduced requirements of number of clients</li> <li>- Reduced requirements of Kuwaitisation</li> </ul>	Containing conflict	Implication of resistance	As an outcome of resistance, what are the implications of customizing modern audit independence regulations (rotation and prohibition of advisory services)?
<ul style="list-style-type: none"> <li>- Modern regulatory practices</li> <li>- Listening to auditor opinions before issuing any audit-related regulations</li> </ul>	Considering the profession in future changes		
<ul style="list-style-type: none"> <li>- Applicable to audit law</li> <li>- CMA customization used to influence CBK rotation plans</li> <li>- Not related to independence</li> <li>- Deception</li> <li>- Maintain status-quo</li> <li>- Big 4 claim to have proper internal policies for rotation</li> <li>- Firms help CMA show the implementation of partner rotation</li> <li>- Harm resistance against customized rotation</li> <li>- Capital market broad reform benefited Big 4 advisory activities</li> </ul>	Customising rotation		
<ul style="list-style-type: none"> <li>- Audit law is unfair</li> <li>- Forming Ministry of Commerce rationality to link advisory to technical independence and</li> </ul>	Silence on advisory prohibition		





internal administrative separation - Separate legal vehicle (within firms) to provide advisory - CMA prohibited individual registered auditor from providing advisory (not firm) - Firm decides what type of advisory could be provided to audit client - Old disputes with CBK about “accounting nature” services			
--	--	--	--

Observation	Sub-themes	Overarching themes	Research question
<ul style="list-style-type: none"><li>- Limited authorities to govern auditors</li><li>- Impractical for companies administrative requirements</li><li>- MC broad responsibilities (beyond audit)</li><li>- Ineffective disciplinary proceedings</li></ul>	MC Weak governance practices	Ministry of Commerce reputation for weak audit oversight	Why did Kuwait modernise its capital market audit regulations?
<ul style="list-style-type: none"><li>- Limited authority to govern auditors</li><li>- State carelessness to regulate audit (no tax)</li><li>- Parliamentary issues to change audit law</li><li>- Auditors resist law reform</li></ul>	Old Audit Law		
<ul style="list-style-type: none"><li>- Involvement of certain auditors in regulating audit through MoC steering committee</li><li>- Earn MoC trust through various initiatives to develop audit practices</li><li>- Advance symbolic interests of specific auditors (pressure MoC to inspect small firms)</li><li>- Form MoC understanding on certain regulatory issues</li></ul>	Infiltration of influential auditors		
<ul style="list-style-type: none"><li>- Reinvent the wheel argument</li><li>- International pressure to correct local arrangements</li><li>- Potential solutions to government ineffectiveness</li><li>- Jealousy between regional countries</li><li>- Attract foreign money</li><li>- National protection purposes</li></ul>	Rationalise Western practices	Radical belief in Western practices	
	Regional competition		
	National security		

## Appendix 6: Selection of salient CMA audit regulation requirements









CMA Resolution	(8)/2011	(24)/2012	(Part of bylaw)/2015	(58)/2019
Registration with CMA				
Application fee, registration fee, and renewal fees				
<b>Requirements for registering licensed auditor</b>				
Ministry of Commerce registration category	A	A	A	A
Experience	10 years in auditing shareholding companies as a licensed auditor	5 years in auditing shareholding companies as a licensed auditor	5 years audit experience as a licensed auditor	5 years audit experience as a licensed auditor
Not convicted of audit errors or violations				

### Audit firm requirement

No less than 5 full-time auditors and one of them is a professional partner				
				
Team experience	60% of the audit team have audit experience of 10 years after obtaining US CPA	35% of the audit team have audit experience of 5 years after obtaining professional certification	33% of the audit team have audit experience of 5 years and a bachelor's degree in accounting	33% of the audit team have audit experience of 5 years and a bachelor's degree in accounting
Kuwaitisation	No less than 25% of the audit team within a year, increasing 10% yearly until it reaches 50%	No less than 15% of the audit team within a year, reaching 25% in 5 years from registration and no less than 50% in 10 years	No less than 15% of the audit team within 3 years, reaching 30% in 6 years from registration and no less than 50% in 9 years	No less that 15%
Number of clients	-Head of an audit team with a minimum experience of 10 years must not have more than 10 clients -Head of an audit team with a minimum experience of 5 years must not have more than 7 clients	-Head of an audit team with a minimum experience of 7 years must not have more than 10 clients -Head of an audit team with a minimum experience of 5 years must not have more than 7 clients	-Same (but conditioned on companies with capital of more than 3 million Kuwaiti dinars (US\$10 million)) -Same (but conditioned on companies with capital of more than 3 million Kuwaiti dinars (US\$10 million))	Removed and required registered auditors to apply IFAC International Standard on Quality Control no. 1

Audit independence requirements				
Separation of teams	If the audit firm has a license for advisory services, there should be a complete separation between audit and advisory teams	Same	Same	Same
Full prohibition on non-audit services	Not to provide any additional services to the company other than those required for an audit. It is forbidden to provide services that affect audit independence like advisory services and internal audit during the engagement	Same	Same	Same
Audit rotation	The audit firm is appointed every year, renewable for a maximum of 4 consecutive years with a cooling off period of no less than 2 years.	The registered auditor is appointed every year, renewable for a maximum of 4 consecutive years. Then it is permissible for her/his partner to continue for the same periods.	The registered auditor is appointed every year, renewable for a maximum of 4 consecutive years with a cooling off period of no less than 2 years.	Same



CMA oversight authority				
CMA has the power to inspect the audit work				
CMA head can, with cause, stop a registered auditor from work or cancel her/his registration if in violation of some articles in this regulations or if her/his licence got revoked by the Ministry of Commerce				

Prepared by the researcher